Interactive Brokers Group's (IBKR)

Q4 2020 Results - Earnings Call Transcript

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Executives
Thomas Peterffy - Chairman
Paul Brody - CFO
Nancy Stuebe - Director, IR

Analysts
Will Nance *Goldman Sachs*
Kyle Voigt *Keefe, Bruyette, & Woods*
Rich Repetto, *Piper Sandler*
Chris Allen, *Compass Point Research*
Craig Siegenthaler, *Credit Suisse*

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Interactive Brokers Group Fourth Quarter Financial Results Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a Q&A session. To ask a question during the session, you will need to press "star one" on your telephone. Please be advised that today's conference may be recorded. If you require any further assistance, please press "star zero." And now I would like to introduce you to our host for today's program, Nancy Stuebe, Director of Investor Relations, please go ahead.

Nancy Stuebe

Thank you. Good afternoon and thank you for joining us for our year-end 2020 earnings conference call. Once again, Thomas is on the call and will handle the Q&A but asked me to present the rest of his comments.

As a reminder, today's call may include forward-looking statements, which represent the company's belief regarding future events, which, by their nature, are not certain and are outside of the company's control. Our actual results and financial condition may differ, possibly materially, from what is indicated in these forward-looking statements. We ask that you refer to the disclaimers in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

2020 was a year of unprecedented worldwide investor engagement with the markets, and Interactive Brokers capturing a large piece of it.

We ended the year with a record 1 million, 73 thousand accounts, up 56% over last year. In 2020, we opened over 383 thousand net new accounts, three times that of our previous record. Client equity grew 66% to $289 billion.

Trading activity continued strong all year with active customer trading levels. Total DARTs began to increase last January and doubled over the course of the year to 2.1 million per day. Per account, DARTs rose from 266 last year to 459 this year.

Growth came from a broad range of geographies and customer types from our geographically diverse sales team and from strong word of mouth. In many countries, we have now grown to a large enough size in terms of accounts that word of mouth leads to meaningful growth from the clients who use and recommend us to their friends and colleagues. As more people want to participate in the markets, invest globally and diversify their holdings, they look to the more experienced friends who have found at Interactive Brokers the access and variety of securities they are looking for. They then see what we offer and sign up. In many regions, this global access can often be found nowhere else or - if it can be found -comes only at an unreasonably high price.

While accounts in the United States have doubled since 2015, outside the U.S., they are up more than 4 times, meaning we are less dependent on the U.S. (or on any one country) for our future. The U.S. now accounts for 26% of our total accounts, down from nearly half 5 years ago.

Challenges met this year include the impact of the COVID pandemic on our clients and staff, the impact of a cash-settled contract closing at a negative price, the effect of Brexit on our European business and the conclusion of our ongoing conversations with regulators.

Regarding COVID, while it has led to a resurgence of interest in the market as people at home look for something constructive to do, it has also meant the majority of our staff works from home. As a technology company, we are uniquely well-positioned to handle this and have not seen interruptions or issues in our business because of it.

I'm happy to say that thanks to tremendous effort on the part of regulators and our team in Europe, we received our approvals before the Brexit deadline and have been able to migrate accounts to our new operations in Luxembourg, Hungary and Ireland. We are looking forward to working in these countries and expanding our European business further.

On WTI, we have spoken about it on previous calls. We are completing programming for negative prices in all product categories, in case this or similar, first-ever event occurs again. We have spent a great deal of time and effort coordinating with multiple regulators, including the CFTC, SEC and FINRA and working with consultants to make sure our solutions and protocols are satisfactory. We have hired the necessary people and put most of these changes into place as we work on the last remaining items.

The costs associated with this, which were spread over several quarters, should now start to ease while the cost of compliance with regulatory regimes in Hong Kong, Australia, Canada and the

EU are now picking up.

Our commissions were up 71% in the fourth quarter and up 58% for the year to $1.1 billion. Despite zero interest rates around the globe and the introduction of zero commissions in late 2019, our total net revenues for the fourth quarter were up 20% and for the year, up 15% to $2.2 billion.

Our pretax margins were also strong at 65% for the fourth quarter and 57% for the year. Excluding non-core items, pretax margins were 65% for the fourth quarter and 61% for the year. There is no other broker we know of who comes close to our levels of profitability, and we achieved these margins while offering state-of-the-art technology and global access.

Now I will go over our 5 client segments. Individual customers were the clear stars in 2020, posting the strongest account growth of all our client segments, up 77%, with 71% growth in client equity and 69% growth in annual commissions. Individuals now make up 57% of our accounts, 36% of our client equity and 54% of our annual commissions. All geographic regions in this segment experienced significant growth, particularly in Europe and Asia.

We continue to see investor demand for global access and wide product choice, with the global pandemic and more time at home acting as tailwinds encouraging investors large and small that this is an opportune moment to enter the markets. While we call this segment “individuals”, it incorporates a wide range of clients from new smaller investors buying their first stocks to larger and more sophisticated ones trading equities and derivatives multiple times a day in several countries. Our platform can serve all of them and help them to achieve better returns by minimizing their costs.

Introducing Brokers was our next fastest-growing segment, with account growth of 42%, client equity growth of 115% and 12-month commission growth of 121%. Introducing Brokers are now 29% of our accounts, 30% of our client equity and 13% of our commissions. As with Individuals, Introducing Brokers were strong in all geographic areas, particularly in Europe and especially in Asia, with similar tailwinds to Individuals, the desire by investors to open accounts, especially internationally, and to participate in the market. These accounts are basically also individual accounts with a broker between IBKR and the individual account holder.

In exchange for a smaller commission, we can pass on to the broker, the direct communication with the customer. And of course, it is the broker who recruits the customer. Small, midsized and start-up brokers continue to find it difficult to build and maintain complex technology involved in offering the global access and product offerings their customers want. So they come to us to white brand our state-of-the-art technology and capitalize on our low cost.

As competitive pressures increase and as agencies in various countries increase their compliance oversight of the financial services industry, complexity rises over time, encouraging more brokers to come to or to start up with us.

Hedge funds constitute 1% of our accounts, 7% of our client equity and 7% for annual commissions. In 2020, we saw growth from hedge funds of 2% in accounts, 34% in client equity and 21% in 12-month commissions. We achieved this growth despite the hedge fund industry overall experiencing a third consecutive year of fund outflows. Hedge funds remain a large multi-trillion-dollar global market, and we continue to have room to grow in this area.

Proprietary trading firms are 2% of our accounts, 9% of client equity and 14% of yearly commissions. For the year, this group grew 28% in accounts, 44% in client equity and 43% in commissions. Despite already being well penetrated in this segment, our continued growth here means that our platform demonstrates value and appeal for sophisticated traders and their larger accounts.

Finally, we have financial advisers. They are 12% of our accounts, 17% of our customer equity and 12% of annual commissions. Accounts in this group grew by 17%, client equity by 28% and commissions by 18%. Several factors will continue to drive this business. Our Greenwich Compliance Group, which provides registration and compliance assistance for new and existing RIAs, continues to sign up RIAs who want to open their own businesses or move from an existing clearing firm.

Going independent means RIAs can keep all the fees they earn. As more advisers look to become independent, our low commission and financing rates, wide variety of mutual fund families offered, and the availability of Greenwich Compliance's services contribute to growth in this segment.

Second, with consolidation among our competitors, many advisers do not want to compete for clients with their clearing firm or be subject to the hidden fees that always seem to pop up. We welcome all of them with transparent pricing, no competing products or in-house advisers, free portfolio performance reporting, a free CRM, and global market access.

Although we do not yet feel it in growing numbers of advisers, our sales force is getting a large number of inquiries from advisers looking for a new platform and from advisers hoping to become independent in the near future.

There is a great deal that we are looking forward to in 2021. We have recently rolled out, and will continue to broaden, our impact dashboard. The dashboard allows our clients to select the ESG criteria most important to them, so they can identify and invest in those companies that share their values. It also analyzes clients' portfolios and calculates an overall score to see how well their portfolios align with the values most important to them.

We are also excited about our mutual fund marketplace, which offers 37,000 funds, all with no custody fee, to our clients around the world. Because we do not offer our own funds, we do not compete against our clients.

To close, when we started our brokerage business in 1993, we thought a good goal to have, one that would motivate us, but seemed like a distant target far in the future would be to achieve 100,000 accounts on our platform. We reached that in 2008, 15 years later. We thought again about what an achievable but distant goal would be and came up with 1 million accounts. I'm happy to say we achieved that goal in October, 12 years later.

Our goal now is 80 million accounts or 1% of world population. How long will that take? We are not sure but think 10 to 15 years. It is encouraging that there is one country today, which I'm not going to name, where we have accounts from over 1% of its population. This is a high target: similar to our earlier goals, it is a ways away but can be achieved, if we continue to automate and attract customers by giving them the tools, low pricing and global product access they need to succeed.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter. Paul?

Paul Brody

Thank you, Nancy. Thanks, everybody, for joining the call. As usual, I'll review our fourth quarter and then the full year results, main factors that drove those numbers and then we'll open it up for questions.

On the whole for the year, the pandemic and actions by the Federal Reserve, which stirred up the markets and reduced U.S. interest rates near zero, produced a substantial shift in the components of our revenue. Strong gains in commissions, bolstered by a flood of new customer accounts, more than made up for the drop in net interest income. Comparing the fourth quarter to the prior year, the contributions to net revenues of commissions and net interest income changed from 34% and 57% to 48% and 38%. The combination, together with other revenue streams, produced a 20% year-over-year increase in quarterly net revenues and record annual pretax income.

Turning to operating data. Trading volumes and customer account openings continued at the high levels we've seen throughout the year, leading to strong growth in accounts, client equity, client credit balances, margin lending and securities lending.

Total accounts grew to about 1.1 million, up 56% year-over-year, contributing to client equity growth of 66%. We saw growth in all customer segments and in particular, in individuals and introducing brokers. Market volatility, though higher than last year, was the lowest this quarter for 2020. As measured by the average VIX, volatility rose to 25.7 in the fourth quarter, up 83%

year-over-year, but down from its second quarter 2020 peak of nearly 35. However, the band between this quarter's low and high VIX of 20 and 40 was wider than in the third quarter and wider than any quarter last year. This contributed to strong trading volumes and a 71% increase in commissions.

Despite continued low or negative interest rates worldwide, our net interest income fell only 22% versus the fourth quarter of '19, thanks to strength in customer cash balances, margin lending and securities lending. 56% account growth provided a tailwind to the strong volumes in all product categories.

Customer contract and share volumes in options, futures and stocks grew 76%, 22% and 215%, respectively, for the fourth quarter and 67%, 30% and 97%, respectively, for the year. Our volumes outpaced overall industry volumes in the U.S., which were up in nearly all categories. FX dollar volumes rose as well.

DARTs reached a record of 2.1 million, more than 2.5 times the 797 thousand of the fourth quarter last year. Our average cleared commission per DART was down 32% to $2.46 for several reasons: First, more trading and equities relative to derivatives. Derivatives are more expensive, though not necessarily more profitable due to relatively high exchange fees.

Second, higher volumes of IBKR orders that added liquidity were routed to exchanges, generating more rebates from the exchanges. These are passed on in the form of reduced commissions to customers choosing tiered commission. And third, smaller average trade size.

Results for the full year reflected the continued momentum and operational leverage of our core brokerage business. Full year commissions rose 58% on high volatility in volumes.

Net interest income fell 19% with the impact of near zero interest rates, partially offset by higher customer cash and margin loan balances as well as strong securities lending. Higher volumes were seen in all product categories, surpassing general overall industry volume trends. For the full year, total DARTs rose 115% and average commission per DART fell 24% for the reasons I pointed to earlier.

The net interest margin table shows that our net interest margin tightened in the fourth quarter to 1.04%, down from 1.70% in the year ago period. For the year, net interest margin was 1.07%, down from 1.70% last year. Despite the drop in U.S. benchmark rates to near zero, higher-margin loan balances, a strong securities lending performance and some positive contribution to customer credit balance interest from those currencies with negative rates kept the NIM from falling further.

The Federal Reserve lowered rates to a target range of zero to 25 basis points in the first quarter and has kept them there since. Internationally, rates are near zero or negative in nearly every country in which we do business. During the year, we kept a relatively short duration on our U.S. treasury portfolio. In the low rate environment, we recorded a mark-to-market loss of $4.5 million for the year, including a nominal loss in the fourth quarter. As always, we plan to hold these securities to maturity, so these gains and losses are temporary. But as brokers unlike banks, GAAP rules require us to mark these securities to market in our financial reporting. This is one of our non-GAAP items that we consider to be non-core.

Outside the U.S., interest rates were predominantly zero to negative. We recorded positive interest on certain customer cash balances, where we pass through negative rate costs on these currencies. For rate increases that may occur in the future, note that about 25% of our customer credit balances are not in U.S. dollars, so changes in U.S. rates will not impact all of these balances.

Despite higher customer cash balances, segregated cash interest income fell due to the collapse in rates and a persistently flat yield curve. Average margin loan balances rose 19% and finished the year 26% over the year ago quarter as investors displayed an increased appetite for risk.

Our growth reflects our ability to fulfill the needs of larger customers as opportunities arise. Though, despite our narrow spread over benchmark rates on margin loans, we continue to experience some spread compression in this low rate environment. We consider our low margin rates a significant factor in attracting investors to Interactive Brokers.

Securities lending interest income was up 44% this quarter and 33% for the full year. Our automation allows us to optimize the availability of customer positions to lend hard-to-borrow, high-rate securities. And customer short stock value, which rose 6% from the prior year end is largely covered by customer margin stocks, reducing our need to borrow from external counterparties.

Now for our estimates of the impact of the next 25 basis point increase in rates, when calculating the impact of rate changes, we understand that as the possibility of a future rate increase becomes more certain, this expectation is typically already reflected in the yields of the instruments in which we invest. Therefore, we attempt to isolate the impact of an unexpected rise or fall in rates, separate from the impact of rate hikes or cuts that have already been baked into the prices of these instruments.

With that assumption, we would expect the next 25 basis point unanticipated rise in rates to produce an additional $98 million in net interest income over the next 4 quarters and $103 million as the yearly run rate based on our current balance sheet. These numbers are highly sensitive to benchmark rate changes due to the impact of low rates on the spread between what we earn on our segregated cash and what we pay to our customers. When U.S. rates fell below 50 basis points, our spread compressed as we're able to earn less when investing our segregated cash. However, the converse is also true that as rates move back up towards 50 basis points, our spread expands significantly.

The yearly run rate includes the reinvestment of all of our present holdings at the new assumed rate but does not take into account any change in how we manage our segregated cash. If we're successful in continuing to grow our customer assets, higher cash and margin lending balances will offset some of the loss of net interest income from low benchmark rates.

Turning to our income statement. As a reminder, one year ago, we began reporting our consolidated numbers only, and we no longer report segments. We define non-core items as those not part of our fundamental operating results.

Non-core items included 4 items this quarter: First, our currency diversification strategy produced a loss of $13 million versus a $12 million gain last year; second, the nominal mark-to-market loss on U.S. government securities of $300 thousand versus $1 million in the prior year; third, a gain on our investments of $33 million versus a loss of $15 million last year; and fourth, tax and related adjustments netting to a $10 million addition to net income at the public company level.

The net effect of these adjustments raised net income by $11 million this quarter versus decreasing it by $600 thousand last year. Net revenues were reported $599 million for the quarter, up 20% versus last year's fourth quarter. And excluding non-core items, net revenues were $582 million, up 16% versus last year.

Commission revenue rose 71% to $288 million on significantly higher trade volumes in all product categories.

Net interest income fell 22% to $225 million, though it was up sequentially. The decline was predominantly due to the drop in global interest rates to near zero and below.

Other fees and services revenues rose 44% to $52 million. These include market data, exposure and account activity fees as well as fees generated from facilitating customers' participation in IPOs.

Other income, a more variable category that includes gains and losses on our investments and currency strategy as well as principal transactions was $34 million versus $9 million in the fourth quarter last year. Ex non-core items, other income increased to $17 million from $12 million a year ago.

Non-interest expenses were $207 million for the quarter, up 10% from last year due primarily to higher execution and clearing costs on stronger trade volumes and higher employee compensation and benefits costs. Execution and clearing expense did not grow as rapidly as trade volume for several reasons, including the mix of products traded, as well as the higher amounts of rebates paid by exchanges when IBKR orders routed there add liquidity. Note that these rebates partially offset commission revenues, which reduces the average commission per DART. Employee compensation and benefits costs rose 15% and occupancy and communications expenses, both grew $1 million as we expanded our presence in Europe.

At quarter end, our total headcount stood at 2,033, a 24% increase over last year as we expanded to service significantly more customers, staff our new European offices and further strengthen our compliance functions. Due to the COVID-19 pandemic, most of our employees worldwide have been working remotely. After a brief pause in the first quarter, we hired throughout the remainder of 2020, primarily in client services, compliance and systems development.

Fixed expenses, which are non-interest expenses less the variable cost of execution and clearing fees were $141 million, up 8%, driven by higher compensation and benefits as well as some increase in occupancy and communications.

G&A expenses were down 6% on the year ago quarter and 19% sequentially, primarily due to the non-recurrence of legal and related costs. The sequential decrease reflects the drop in expenses associated with the development of our enhanced global compliance program, which, while still elevated, began to roll off.

Customer bad debt expense was immaterial this quarter. For the year, this expense was $13 million, well within our typical $0 to $5 million per quarter range. Reported pretax income was $392 million, up 26%, despite a $62 million drop in net interest income, for a 65% margin. Excluding non-core items, pretax income was $375 million, up 19% for a 64% margin. Diluted earnings per share were $0.81 for the quarter versus $0.57 in the year-ago quarter. Ex non-core items, diluted earnings per share were $0.69 versus $0.58 for 2019. And for the full year, diluted earnings per share were $2.42 versus $2.10 last year and $2.49 versus $2.27 last year as adjusted.

To help investors better understand how our earnings and taxes are split between public shareholders and noncontrolling interest, the fourth quarter numbers are as follows: starting with our unadjusted pretax income of $392 million, we add back $4 million of stand-alone net expense at the public company to get the operating company's pretax income. We then deduct $4 million for income taxes paid by our operating companies, which are mostly foreign taxes. This leaves $392 million, of which 79.1% or that $309 million reported on our income statement is attributable to noncontrolling interest. The remaining 20.9%, or $83 million, is available for the public company shareholders. As this is a non-GAAP measure, it is not reported on our income statement.

After we deduct the $4 million public company stand-alone net expense, and after expensing remaining taxes of $8 million owed on that $83 million, the public company's net income available for common stockholders is the $71 million you see reported on our income statement. The income tax expense line of $12 million consists of this $8 million plus the $4 million of taxes paid by the operating companies.

And one additional note on income tax, the current quarter's tax includes about $11 million in prior period adjustment benefits that are not expected to be recurring, including an approximately $8 million net benefit related to the revaluation of our deferred tax asset, which is included in our non-GAAP results.

Turning to the balance sheet with $9 billion in consolidated equity at December 31, 2020, we are well capitalized from a regulatory standpoint. We deploy our strong capital base toward opportunities to grow our business and investing opportunities worldwide as well as to emphasize the strength and depth of our balance sheet to current and prospective clients and partners.

Our capital is deployed across 14 registered broker-dealer type entities around the world, supporting regulatory capital requirements, liquidity needs, margin lending and other financing opportunities in our growing brokerage business. And we continue to carry no long-term debt.

With that, I will turn the call back over to the moderator, and we'll be happy to take questions.

Question and Answer Session

Operator

(Operator Instructions)

Our first question comes from the line of Rich Repetto with Piper Sandler

Rich Repetto

Good evening Thomas and Paul. Congrats on the strong quarter. And I'm just trying to see whether, on expenses, when you look to the forward year to 2021, are we still going to invest -- I think the guidelines has been somewhere around 15%. What's your view on expenses for the coming year, I guess, Thomas and Paul?

Thomas Peterffy

We probably increase expenses at least by 15% as we're trying to build out the new entities and, of course, continue to build our customer service, our compliance departments and our ability to create new software. It's all about growing the company.

Rich Repetto

I understand. Another -- your margin balances went up pretty robustly in December, and that's sort of a seasonal pattern, but irregardless the margins rebounded dramatically from March when it hit $19 billion. But I guess it's still -- when you look at the average margin balance per account or margin balances as a percentage of overall client equity, they are still at relatively lows. And I'm just trying to see, Thomas, whether you are -- how optimistic that you think that these new -- all the new accounts will ultimately lever up and have similar margin balances that you've experienced in the years past because all the other metrics as far as trading, client equity, they're in line. It's not like you get a different account, it doesn't appear.

Thomas Peterffy

That's why I'm tearing my hair out. I'm mystified by the margin that is not increasing. What else can we do but being by far the lowest offering by far the lowest margin rate. And it's not that our current customers don't borrow more. It's -- I'm questioning why people who are out there at all these other brokers paying 3%, 4%, 5%, why they don't come over. I don't know the answer.

Rich Repetto

Okay. One last quick one. The diluted share count went up by, I think, almost 10 million or so. And I know that's more than just you selling, and I know there's no economic impact, but could you give us some color on what's happening there?

Thomas Peterffy

Some of our other internal shareholders have sold shares, unfortunately, too early.

Rich Repetto

Yes. Exactly. Thank you very much Thomas.

Operator

Our next question comes from the line of Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler

Good evening everyone, thank you for taking my question. I just wanted to learn how your 3 brokers in the European Union were running, including the new entity in Hungary and the recently approved broker in Ireland. And I wanted to see if they were now handling all the trades for EU clients that were able to be transitioned from the London broker?

Thomas Peterffy

So that we are in the midst of transitioning these accounts. They have not all been transitioned, but most of them have been. And yes, so that is the plan. By the end of the month, that will all be completed, and the plan is to, yes, handle all the EU clients from Ireland, Luxembourg and Budapest.

Craig Siegenthaler

Got it. And then how much capacity is there for future growth in the EU because I think your Luxembourg entity may be somewhat constrained, but I think there's actually probably a lot of upside for growth in the Irish entity?

Thomas Peterffy

There's a lot of upside in Ireland and in Central Europe, and that's exactly why we put in those 2 entities. We don't see any limits.

Craig Siegenthaler

Got it. Thomas, thanks for taking my questions.

Operator

Our next question comes from the line of Will Nance with Goldman Sachs.

Will Nance

Hey guys, good afternoon. I think most of my questions have already been asked. I did have 1 or 2. Just a quick housekeeping one on the seg cash yields. I think it hit 6 basis points this quarter, is that a fairly decent run rate kind of fully repriced for the current rate environment? And then related to that, you mentioned keeping the duration short. I know there's been some steepening of the curve, although I wouldn't exactly call it compelling and I think shorter-dated treasuries are still fairly flat. So when we think about the ability to kind of extend the duration on the segregated cash portfolio like how much steepening do you kind of need to see for that to actually become worth the time and duration?

Thomas Peterffy

I would be much too scared to extend the duration because I think inflation must be lurking in the bushes, I guess. I can't understand how we can issue trillions of dollars of new money every other month and not feel the inflation. I don't understand what goes on. It can't go on like this forever.

Will Nance

Got it. Okay. And then just maybe a follow-up on Rich's question on the margin balances. Just you guys do typically see a bit more year-end seasonality on margin balances than I think others. And some of the industry data points are pointing to really strong numbers in January and kind of retail trading continuing to be very robust. Just are you seeing that to kind of continue to flow through on margin balances month to date? And any color on whether you've seen the same sort of trends in trading activity?

Thomas Peterffy

Will, you have to excuse us. We do not talk about events past the year-end.

Will Nance

Got it. No worries. I thought I'd try. Thank you for taking my questions.

Operator

Our next question comes from the line of Kyle Voigt with KBW.

Kyle Voigt

Hi, good evening. Thomas, trading activity was up 160% year-on-year in the fourth quarter. Just wondering if you could help frame how much of that increase is being driven by clients that were acquired in 2020 versus clients that were already on the platform previously? Just trying to get a sense of how much of that activity is really driven by these new clients that have recently joined?

Thomas Peterffy

So the new clients trade a little bit less, but not by much. That's the answer. So a new client -- the new clients probably trade around 80% to 85% as much as the old ones.

Kyle Voigt

Okay. That's helpful. And you mentioned really strong growth in Europe and Asia, any more color on which countries you're seeing especially strong trends within that?

Thomas Peterffy

Well, surprisingly, Canada is one of the strongest. But in Europe, it's mostly Eastern Europe. And Asia, it's the same old, Hong Kong, Singapore and the surrounding countries. It's substantially diminished from China, probably because of the difficulty of getting money out.

Kyle Voigt

Right. And then also just a question on, I think, IBKR notes launched in the quarter for accredited investors. Just wondering if you could just describe that program in more detail? I'm just wondering what you're earning on cash that's -- on client cash that's invested into that program? Is there a fee or on that?

Thomas Peterffy

Paul, could you address this question?

Paul Brody

Yes. Sure. For us, it's opportunistic when we get opportunities to place money at higher rates we do. The notes program gives us some flexibility after using what is otherwise house capital. It's a relatively short term, relatively high rate to the investor. It started at 50 basis points, and then we ratcheted up to 1%. And they can roll over, in other words, we can redeem them at any time if we feel that the opportunities are no longer there or temporarily no longer there. So it seems to be a very good program for us so far, and you got some pretty good take up from the start.

Kyle Voigt

Any way to quantify that at all, Paul, sorry?

Paul Brody

The note?

Kyle Voigt

No, sorry, in terms of the take-up thus far?

Paul Brody

I think we were at $90-something million by the end of the year.

Operator

Our next question comes from the line of Chris Allen with Compass Point.

Chris Allen

Good evening everyone**.** Most of my questions have been asked and answered. Just wonder if maybe you could give us some color on other fees and services saw a very nice year-over-year growth, sequential growth, whether that's being driven by market data, payment for order flow or other factors?

Thomas Peterffy

So it's mostly market data. It's exposure fees that we charge to our customers who's basically P&L profile can violate certain limits that we like to put on because we basically -- we're not looking to expand -- we're not looking to collect on the exposure fees, but our real purpose is to try to get the client to reign in the risk in their position. But nevertheless, it contributes to our income. But on the long run, we feel that we will pay that out in losses that the customers will not be able to make good on. What other item is there, Paul? The payment for order flow comes from the IBKR Lite accounts, right, where we...

Paul Brody

The payments for order flow that go into other fees and services are actually the exchange mandated programs at options exchanges where they rebate part of the liquidity producing orders. To the extent the payment for order flow on the IBKR Lite actually nets into the commission. That's accounting convention, but it's clear how that comes out.

And I was going to mention that in market data, although it's the largest item in that category, it's primarily a pass-through, right? We pay for market data and then we collect on market data, and we make a small spread on it.

Chris Allen

Got it. And then any material changes in terms of how many accounts and trades IBKR Lite accounted for this quarter versus in the prior quarters?

Thomas Peterffy

Can you say that again?

Chris Allen

I'm just wondering, IBKR Lite percentage of trades and accounts, I think it was running about 5% of accounts and 6% of trades in the prior quarter?

Thomas Peterffy

It's fairly stable around those numbers. Although now that we are integrating with the Folio customers, some 60,000 customers that are coming over, we're putting accounts under $25,000 into IBKR Lite, so -- and leave it up to them if they want to switch to Pro, so you will see the proportion of Lite customers shot up by the end of the month.

Chris Allen

Got it, thank you that is it for me.

Operator

There are no further questions in the queue at this time. I will now turn the call back to Nancy Stuebe for closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website, and we'll be putting up a clean version of our transcript on the site tomorrow. Thank you again, and we'll talk to you next quarter end.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.