

Interactive Brokers Group's (IBKR)

Q4 2022 Results - Earnings Call Transcript

January 17, 2023 4:30 PM ET

Executives

Thomas Peterffy - Chairman

Milan Galik - President, CEO & Director

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

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Craig Siegenthaler, *Bank of America Merrill Lynch*

Ben Budish, *Barclays*

Daniel Fannon, *Jefferies*

Kyle Voigt, *KBW*

Chris Allen, *Citi*

Macrae Sykes, *GAMCO*

Operator

Thank you for standing by, and welcome to the Interactive Brokers Group Fourth Quarter 2022 Earnings Call. (Operator Instructions) I would now like to hand the conference over to Director of Investor Relations, Nancy Stuebe. Please go ahead.

Nancy Stuebe

Thank you. Good afternoon, happy new year, and thank you for joining us for our fourth quarter 2022 earnings call. Thomas is on the call, and asked me to present his comments on the business. Also joining us today are Milan Galik, our CEO, and Paul Brody, our CFO. After prepared remarks, we will have a Q&A.

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 disclaimers in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

The good news about 2022 can be seen in our numbers.

- We now have over 2 million customers around the world.
- We earned \$3 billion in net revenues for the first time.
- In the fourth quarter, our pretax margin reached 71% - by far the highest in the industry.

After two years of unprecedented investor interest in the markets overall, we now see some retrenchment and more localized engagement in particular product segments, like futures and options, rather than across the board. Rising inflation and interest rates - as well as geopolitical uncertainty in places around the globe – helped commodity, interest rate and stock index futures become more popular, while options were increasingly used to manage risk. Equity markets grew weaker as inflation and the impact of central bank policies took hold.

After years of persistent deficit spending, with zero (and negative) interest rate policies around the world, I believe inflation is going to stay with us. It is likely to stay above 4%, and the Federal Reserve will keep rates at this level or higher, and eventually will have to give up on getting inflation down to its current 2% target. We believe that the target will be raised.

Higher inflation and lower equities markets impacted our industry. For us, our year-on-year account growth was 25% in 2022. While for many companies this would be good news, we want to do better.

Our “natural” account growth, by word of mouth, is 10-20%: when markets go down, as they are now, that growth is closer to 10%; when the market goes up, that growth is more like 20%. Our sales efforts also add another 10 to 20% on top of that, though in the short-term, that growth can be very “lumpy”. We still see the bulk of the onboarding of the two new introducing broker clients we have mentioned happening in the second and third quarters of this year.

There is a lot of discussion today around market structure, and Interactive Brokers’ auction model for options offers customers a path to best execution. In a volatile market, options have continued to be a security of choice for investors, both to take on exposure to a security at a lower cost than buying the stock outright, and as a way to mitigate risk. Industry-listed U.S. options’ average daily volume was over 41 million contracts in 2022, up from under 40 million the prior year.

We do not accept payment for order flow for IBKR Pro customer orders. Rather, we invite pegged to the mid-price orders by institutions and market-makers to our ATS to trade with our retail orders.

Somewhat similarly, we auction off each option order among 22 top market makers and other professional traders, who give their best bids and offers for every order our customers enter.

These auctions last something on the order of 100 milliseconds, and the winner chooses which exchange it wants to use to trade with the order. We then post the order for a second auction at the exchange, and if nobody improves on the price, the original winner of the auction trades the contract at the previously agreed upon price.

This all happens in a fraction of a second. All participants use automated processes, and they automatically feed the amount of price improvement they are interested in competing on for any specific option contract, at that specific time, to trade with. This competition to win the auction

means our customers can take advantage of a leading-edge system designed to get them the best available price.

We are now going to enhance this system by enabling our own customers, who are so inclined, to participate in this process on the market-maker side.

We are going to give them an order type with which they can signify the option or options they want to buy or sell, and when we receive an opposing order, we will bid or offer on their behalf along with the market-makers.

They will also tell us the price relative to the floating mid-price, the middle of the bid /offer spread, that they are willing to pay up to and our software will do the bidding for them. We still have some minor details we must work out with this project but we are hoping to be able to introduce this capability to our customers by the end of this month.

We are at the cutting edge of this best execution through auction process. We were the largest market makers in options for over 30 years, so we are very well-versed in these processes, and we have been keeping them up to date over the years. With the potential for a new regulatory process, in addition to new exchanges and continuously evolving new rules, we have a team of programmers regularly engaged in this activity.

If some similar method becomes required, sophisticated mechanisms like the ones we use, could take a long time – and great expense - for others to create. There is a lot of debate on this, but we will be good with whatever ends up being the outcome.

By the way, we are always happy to welcome more market makers to our platform – we added another 4 this past year - so please get in touch if you'd like to join us.

We introduced more new products and expanded the capabilities of existing ones. Recognizing our global customer reach, we introduced GlobalTrader, a streamlined version of our platform for mobile devices, which allows our clients to trade in over 90 stock markets worldwide. We

continue to enhance our options trading tools, from mobile options trading to our rollover options tool, Strategy Builder, and Probability Lab.

We will be upgrading our platform with more features and capabilities. We are introducing new tools for financial advisors, ones they have been asking for and that will set our offering apart as best in its class, as well as being among the lowest cost for an advisor to use.

We are also adding new countries where our clients can trade.

We were pleased to receive our bank license in Hungary, and plan to make it operational in 2023. Unlike in the US, customer funds on deposit with an EU broker, may not be used to finance margin borrowings by other customers of the broker. Only banks can lend their customers' funds to other customers, no matter what kind of collateral is involved. Our primary purpose with this EU bank is to facilitate such financing.

There is much to look forward to. The Interactive Brokers platform is built with the purpose of bringing investors and marketplaces together all over the world, optimizing the allocation of capital and resources. It is our job to develop the best tools and capabilities to facilitate that. We are as busy programming as we've ever been. This, and our much lower cost structure, is what sets up apart, and will continue to do so in the years ahead. Paul?

Paul Brody

Thank you, Nancy. Welcome, everyone, to the call. I'll review our fourth quarter results, and then will open it up for questions.

Starting with our Revenue items on page 3 of the release, we are pleased with the record financial results we achieved this quarter. Commissions rose versus last year, despite declining global market indices, reaching \$331 million, our third-highest quarter ever. For the full year, commissions were \$1.3 billion, down only slightly from 2021's "meme stock" spike in trading.

We saw higher trading volumes in futures and options in 2022, coming from our large base of sophisticated and active traders, investors and advisors.

Net interest income of \$565 million for the quarter and \$1.7 billion for the year reflected increases in benchmark rates worldwide. US rates have moved from an average effective rate of 0.08% in the 4th quarter of 2021, to 3.65% in the 4th quarter of 2022. This led to higher interest earned on margin loans and our segregated cash portfolio. These were partially offset by the higher interest paid to our customers on their cash balances, as Interactive Brokers passes through to them all rate hikes above the first 50 basis points on their qualified funds.

Other fees and services generated \$43 million for the quarter and \$184 million for the year. The drop from the prior year quarter was driven primarily by the risk-off positioning of customers, which led to a reduction in risk exposure fees from \$18 million to \$6 million. FDIC sweeps fees rose to \$3 million this quarter, while market data fees of \$18 million and exchange liquidity payments of \$9 million were both off 10%.

Other income includes gains and losses on our investments, our currency diversification strategy and principal transactions. Note that many of these non-core items are excluded in our adjusted earnings. Without these excluded items, Other income was \$19 million for the quarter and \$39 million for the year.

Turning to expenses, Execution, Clearing and Distribution costs were \$90 million in the quarter, and \$324 million for the year. The increases were led by lower liquidity rebates; a nonrecurrence of 2021's options fee reductions and "fee holidays" from unusually high volumes throughout the industry; higher futures volumes, which carry higher fees; and an increase in the SEC fee rate on US stocks and options.

As a percent of commission revenues, Execution & Clearing costs were 21% in the fourth quarter. Note that we report Market Data expense, a pass-through item, in "Execution, Clearing & Distribution Fees", while the corresponding revenue item, Market Data revenue, is included in

“Other fees and services”. To align the volume-based costs with commissions, we look at Execution & Clearing costs ex-market data expense.

Compensation & Benefits expense was \$119 million for the quarter, for a ratio of Compensation expense to Adjusted Net Revenues of 12%. For the year, this ratio was 14%, unchanged from last year despite a 10% increase in headcount. We continue to focus on expense discipline while improving our strong top line. Our headcount at year-end was 2,820.

G&A expenses were up from the year-ago quarter, primarily on higher legal expenses from relatively low numbers last year; though for the full year they were down 6%, reflecting the non-recurrence of Brexit-related costs and a reduction in consulting expenses and bank fees.

Our pretax margin was a record 71%. Automation and expense control, along with prudent management of our balance sheet, remain our key means of maintaining high margins, while we continue to hire talented people and invest in the future of our business.

Income Taxes of \$56 million reflects the sum of the public company’s \$31 million and the operating companies’ \$25 million. For the year, taxes of \$156 million are the sum of the public company’s \$87 million and the operating companies’ \$69 million.

Moving to the balance sheet on page 5 of the Release, our total assets ended the year at \$115 billion, with growth driven by higher customer cash balances, partially offset by lower customer margin lending.

We maintain a balance sheet geared towards supporting our growing business and providing sufficient financial resources during volatile markets. We have no long-term debt.

Our ample capital base is not only deployed in running our current business, it helps us win new business, by showing the strength and depth of our balance sheet to current and prospective clients and partners; and it positions us to capture numerous growth and investment opportunities we see worldwide.

In our operating data, on pages 6 and 7, our contract volumes for all customers rose 23% over the prior-year quarter in futures, well above industry growth. Options contract and stock share volumes declined versus unusually high volumes last year. For the full year, options and futures contract volumes rose 3% and 33%, respectively. The decrease in Stock share volume was largely attributable to lower trading in pink sheet and other very low-priced stocks.

On page 7, you can see that: Account growth remains robust, with 415 thousand net new account adds for the year. Total accounts broke through the 2 million mark in 2022, closing the year at 2.1 million, up 25% over the prior year. Total Customer DARTs were 1.9 million trades per day, reflecting a risk-off period for investors and down from last year's stronger market environment. Commission per Cleared Commissionable Order of \$3.15 was up 32% from last year, as our clients' volume mix included fewer low-priced stock trades and larger average trade size in options.

Page 8 shows our Net Interest Margin numbers. Total GAAP net interest income was \$565 million for the quarter, up 92%, and \$1.7 billion for the year, up 45%. These reflected strength in margin loan and segregated cash interest, partially offset by higher interest expense on customer cash balances.

The Federal Reserve raised interest rates twice in the quarter, by 75 basis points in November, and a further 50 basis points in mid-December. These increases had a partial positive impact in a 12-week quarter, but will have a full impact in the first quarter of 2023. Other central banks also raised rates this quarter, including the UK, Hong Kong, Canada, Australia, the Eurozone and Switzerland.

Higher interest rates led to margin loan interest income up 32% over the third quarter and 182% over the prior-year quarter, more than compensating for lower average balances in both periods.

Securities lending net interest was not as strong as in the prior year for a few reasons. First, while overall customer demand for shorting stocks and borrowing shares rose, there were fewer "hard

to borrow” names throughout the industry. Second, benchmark rates are rising. The interest we earn on cash collateral received in exchange for lending stocks is also rising. That’s good news. Because this cash collateral is invested as segregated funds, the interest earned on it falls under the heading “Net interest income on Segregated Cash” in our NIM table, rather than “Securities Borrowed and Loaned”. We estimate that the incremental interest earned on this stock loan cash collateral from rate increases was \$42 million for the quarter.

Interest on Customer Credit Balances, or the interest we pay to our customers, increased. Higher rates in nearly all currencies led to our paying interest on qualifying balances as we pass through these rate increases to our customers. We paid \$487 million to our customers on these balances in the fourth quarter, and a total of \$763 million for the year. Fully rate-sensitive balances were about \$20 billion this quarter.

Now, for our estimates of the impact of increases in rates. Given market expectations of more rate hikes to come, we estimate the effects of increases in the Fed Funds rate to produce additional annual net interest income as follows:

- At 25 bps an increase of \$49 million,
- At 50 bps an increase of \$97 million,
- At 75 bps an increase of \$146 million, and
- At 100 bps an increase of \$195 million.

Note that our starting point for these estimates is December 31st, with the Fed Funds effective rate at 4.33%, and our balances at that date.

About 25% of our customer segregated cash is not in US dollars, so estimates of US rate change impacts exclude those currencies. We estimate a 25-basis point increase in all the relevant non-USD benchmark rates would produce additional annual net interest income of \$25 million, and rising to about \$100 million at a 100 basis point rate increase.

In conclusion, we had a financially strong quarter to close out a record year in net revenues and pretax margin, reflecting our continued ability to grow our customer base and deliver on our core value proposition to customers. We have done this while highlighting the attractiveness of our

strategy to automate for growth: expanding what we offer while minimizing what we charge. We do this at low cost, managing our growing business effectively and with strong expense control.

With that, we will turn it over to the moderator and will now take some questions.

Question and Answer Session

Operator

(Operator Instructions) Our first question comes from the line of Richard Repetto of Piper Sandler.

Richard Repetto

I guess my question, Thomas had to do with the introduction and how you talked about Interactive Brokers technology being so adept, I guess, in the options auctions. And I guess the question is, okay, it looks like we could have auctions implemented into equities. And could you just talk about if there's any first impressions of what the SEC has rolled out? And what do you think is the impact? And would you have that same—I guess you're saying you have that same advantage of the experience of the auctions from options and can apply it to equities. Is that what the message was?

Thomas Peterffy

Yes. So, I haven't heard anything, and I do not expect that the SEC will require an auction process for options. But to the extent that they will do so for securities, I think that gives us a great leg up in marketing our auction process for options because obviously, if auctions are good for securities, they are good for options, too. As a matter of fact, the fact is that it is better for options—because on options, the bid-offer spread is relatively wider than it is in securities. So, a \$3 option that really costs, say, \$300 for a contract, the bid-offer spread is often as wide as \$0.05 to \$0.06 or \$5 to \$6 on a \$300 trade, right? So, a facility whereby the participants can meet

somewhere in the middle and the spread is saved to our two customers on each side of the trade, I think it's a huge leg up and we can market the hell out of it. That's the idea here.

Richard Repetto

I guess just a quick follow-up on that, but you don't consider the options price improvement sort of—I thought those were called auctions, but you don't consider them equivalent to what the SEC has sort of outlined at this point?

Thomas Peterffy

Well, it is equivalent in the stock space, but I haven't heard them talking about options. But we are basically proposing to do the same thing in options as they may require for stocks.

Richard Repetto

Okay. And one other financial analysis question. Paul, can you give us sort of expectations for expenses in the coming year? It looks like the adjusted—I think if our number is right, somewhere about 15% year-over-year increase in expenses this year. Is that a good number to sort of use as a benchmark or rule of thumb for 2023?

Paul Brody

Thomas, you have a view? Maybe we have been doing...

Thomas Peterffy

I'm sorry, I didn't catch the question.

Paul Brody

The increase in overall expenses. I mean, we do continue to hire along with the growth in our business.

Thomas Peterffy

Yeah, I think our increase— I think we're going to increase expenses roughly 15% a year as we have done in the past. We continue to grow. We continue to come up with new things, and we continue to pay to attract new talent. But as long as our expenses don't increase any higher than our revenues, I think we're going to continue to run at around 70% profit margin, and that's good enough for us.

Operator

Our next question comes from the line of Craig Siegenthaler of Bank of America.

Craig Siegenthaler

So, if we exclude the two large introducing broker wins that are going to start funding in 2Q, how does the future i-broker pipeline look? And could you announce additional large i-broker wins over the course of the next year?

Thomas Peterffy

Could we— sure, we could. The question is will we, and I am not so sure we will. I mean, obviously, we have a lot of people out there who are trying to recruit i-brokers and the more we get on the platform, the more they will hear about it and the more of them will come to us. The idea basically is that worldwide, it is very difficult to create a system that is compliant with all the regulations all over the world. And so we have a huge leg up in having done so, and I think we don't have any— basically, I don't think we have any serious competitors in this space.

Craig Siegenthaler

Got it, Thomas. And then just for my follow-up, I heard Paul's comments on higher legal expenses in G&A. Should we assume part of that as onetime as we work....? And I'm just thinking, is there a good number for us to work off for 1Q '23 relative to the \$48 million in 4Q?

Paul Brody

Legal expenses get— they go up, they go down, cases come by, regulatory things come by. Maybe the best— the most realistic thing you could look at is on the year as opposed to on the quarter.

Operator

Our next question comes from the line of Benjamin Budish of Barclays.

Ben Budish

I kind of wanted to follow up on the spending, but maybe kind of a higher-level question. Can you maybe talk about some of your strategic priorities for this year? I think in the past, you've kind of indicated the more geographic expansion, digging deeper into the hedge fund business. Where are you kind of focused in terms of spending, your top priorities?

Milan Galik

Thanks for the question. We are focusing on making our systems more robust. The more i-brokers we get on the platform, some of them being large multinational banks, they require a very high level of reliability and redundancy. We have had back up data centers, online, available to us for a long time, but we are not able to turn them on in a matter of seconds or minutes. So that is where significant expenditure is going to go. As far as growing the staff, we're going to be flexible in the area of compliance and customer service, and we will respond to the increase in the number of accounts and the trading activity. As far as the technology is concerned, we will continue hiring the talent as we have in the past.

Ben Budish

Great. Super helpful. And then if I could follow up on kind of a comment you guys made earlier on - I know you said that the account growth, there's kind of a mix between natural word of mouth and sales, which can be quite lumpy. I'm just wondering kind of in the most recent months, what has been the mix. Has it been sort of even or more geared one way or another?

Thomas Peterffy

It's half and half, roughly.

Operator

Our next question comes from the line of Daniel Fannon of Jefferies.

Daniel Fannon

Thomas, I wanted to get your thoughts on just the elevated use of options as well as futures and maybe the sustainability of that as you think about 2023 and whether we're above average, below or you think we can still grow from here?

Thomas Peterffy

So, as you know, I started my career in this business as an options trader on the floor of the AMEX, and all I have seen over the past 46 years is a continuous increase in options trading. And what we see now is in addition to the U.S. growth, growth is now beginning to pick up in Asia and in Europe in the options space because they basically got into the options business about 20 or 30 years ago and then it slowly dwindled down to nothing over there. And now it is finally picking up again. So, I am extremely optimistic about the growth in options trading. Obviously, if you just look at the idea of doing vertical spreads, when your losses are very limited, and you can put on some terrific positions in vertical spreads, it's much better than trading stocks.

Operator

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

Kyle Voigt

Good evening. Maybe just a follow-up on the commentary earlier regarding the sales effort adding 10% to 20% to account growth per year. I'm just wondering is that, with the current sales team and marketing budget and when we think about that 15% expense growth, is sales and marketing an area you're prioritizing? I'm just wondering like, bigger picture, are there larger changes in advertising strategy that you're contemplating, I guess, as you look out to next year?

Thomas Peterffy

So, we're working this across the board. We're continuously trying to train new salespeople who basically come to begin working on our professional help desk. And after they went through that for about 2 or 3 years, they are mature enough to bring onto the sales team and begin to sell. As far as advertising, as you know, it's the digital advertising space, it's a situation in flux to the extent that I am in a flux trying to talk about it. So basically, what I'm saying is reflecting what's going on there and the way I say it. So, we're continuously working on it, and we do not have budget constraints anywhere, but we are trying to get a good return on the investment. So, we are not going to throw a lot of money on various campaigns unless we see that it proves itself. So, we try small and if it works, we keep trying to get it bigger and bigger and bigger. But usually, as we find it - when we start something, it starts working, and as we keep growing, it works less and less. I don't know why that is so, but that's how it is. So, we have a lot more, we would love to spend a lot more money advertising, but we won't do it without having a reasonable return.

Kyle Voigt

Understood. Maybe I shift over to NII. Just curious, strategically speaking, if we start to see the central banks cut overnight rates potentially by later this year, does that change your strategy on the duration of the segregated cash portfolio at all?

Thomas Peterffy

Well, if you believe that they will cut it, good luck to you.

Kyle Voigt

I guess if we do start to see that move, I guess, does that change your viewpoint or is what you said earlier?

Thomas Peterffy

It is a risk we cannot take because if you're right, we'll actually make extra money. But if we're wrong, we can lose a fortune because as rates go up, we have to raise the rate that we pay to our clients. And we don't want to be a situation where we are lent out on the long end and we're borrowing on the short term from our customers. So, we can get creamed that way, and we will not do that.

Kyle Voigt

Understood. And last question for me. It's just the yield on customer credit balances that you're paying out the clients came in a bit lower than we expected. Paul, I know you said \$20 billion is the fully rate-sensitive cash figure. I just want to confirm that \$20 billion figure, does that also include balances that are partially rate sensitive within there? I just wanted to confirm that.

Paul Brody

Right. I mean it includes the equivalent of the fully sensitive balance, right? So, we pay a pro rata portion of our full rate on accounts that have between \$10,000 and \$100,000 in equity. We've calculated the equivalent effective principal on which the full rate would have been paid right? So, it's a good number to assume they're fully sensitive.

Kyle Voigt

Yes. And the interest rate sensitivity that you gave earlier, Paul, I just want to confirm as well, that does not include, I'm assuming, the additional interest that you'd also earn on corporate cash balances. Is that correct?

Paul Brody

No, it does assume that both the customer side and the investment side move together, right? And we have quite a short duration. And so those are fully absorbed run rates, but it wouldn't take us that long to get there as rates move around given that our duration is short.

Operator

Our next question comes from the line of Chris Allen of Citi.

Chris Allen

I was wondering if maybe you could give some color just in terms of the account growth - were there any strength in any particular customer segments or regions relative to any others this quarter?

Thomas Peterffy

Well, look, our fastest account growth is individuals, followed by prop traders, followed by hedge funds, followed by i-brokers, and lastly, financial advisers. So that's the relative rate of growth. And that is for the last 12 months, so I have not broken this out for the last quarter. But— so look, basically, probably the last quarter, hedge fund growth is probably— yes, that is unusually high. And we don't do as well with financial advisers as we do with hedge funds. The software development that Milan mentioned having to do with financial advisers is meant to better that growth rate.

Chris Allen

Got it. Any specific regions growing faster than others at the moment?

Thomas Peterffy

Yes, I think it's to a large extent, this is a word-of-mouth game, right? And it just so happens that we are doing very well among hedge fund people, and financial advisers are more or less locked up to the extent that they are associated with Morgan Stanley and UBS, they are locked up there. To the extent they are independent, they are with Schwab and Ameritrade. And so, they are not as easily— and there are not so many new of them that start, right? So, it is a more difficult task to get new financial advisers than it is to get hedge funds.

Chris Allen

Got it. And is there any way you guys can frame out the Hungary bank license, what that might mean just in terms of the inability to fund margin loans in Europe, EU right now, what the demand would theoretically be— any way to think about that?

Thomas Peterffy

Margin accounts, currently, we cannot use customer monies to lend out to other customers in the EU, and we have roughly a similar demand in the EU as we have in the U.S. for that. And so, we are currently using our own money. In the future, we will be able to use other customers' money.

Operator

(Operator Instructions) Our next question comes from the line of Richard Repetto of Piper Sandler.

Richard Repetto

Yes, sorry. First, just a couple of quick accounting follow-ups. Paul, you said that -- I thought you said that the market data expense went into execution and clearing. I didn't get the number. Can you give us the amount that went into the execution and clearing expense?

Paul Brody

Right. So, the line item is called "execution, clearing and distribution", where the distribution is really distribution of market data. What I was pointing out is that when we talk about the expense portion of executing a trade about 21% cost versus the commission that we earned. And in order to get a reasonable number there, an accurate number, you have to pull out from the line item, market data, which doesn't go into commission, it goes into the Other income line. That's how it's paired up, right? It's marginally profitable every year because there's a little bit of markup and some estimates on how we have to estimate our costs and pass through. But in other words, what I was pointing out is to get rid of the noise when you're thinking about the marginal gross profit that we get when we execute a trade and earn a commission.

Richard Repetto

Okay. And was there any one timers this quarter in G&A expenses?

Paul Brody

Not especially other than, as I said, legal fees go up and down. They were up a bit higher this year, but they were especially low last year. So, it's— as I said, nothing else of note and it's better to look at probably the whole year to understand something more about our run rate.

Richard Repetto

Okay. And then the last question is I believe the sensitivity, the interest rate sensitivity for the 25-basis point rate hike is smaller than it was what you said it was last quarter. I believe it was \$54, going down to \$49. If I do have that correct, can -- I know margin balances are down, but is that just the prime culprit because seg cash balances are up and -- I'm just trying to get why is it down.

Paul Brody

Right. So, there's a few different scenarios that we talk about. If we assume that all currencies, understand it's a hypothetical case. If all currencies raised rates together, the numbers are actually up from last quarter, the projected numbers are up. When we assume that the USD only—only the Fed funds will increase, and other currencies will not, what happens is that there's an overlay of currency swaps because in order to protect customer money for the U.S. customers when we receive other currencies, we swap them into U.S. dollars and put them into segregation, and there's a cost to that. And when the USD rates go up, that cost goes up. And so, as you project out a higher interest rate increase only in the U.S. dollars, there is some offsetting effect that would tend to dampen the incremental number at any given increase— 25 basis points, 100 basis points.

Operator

Our next question comes from the line of Macrae Sykes of GAMCO.

Macrae Sykes

Congratulations on the quarter and the year, very strong progress. My question is around providing an update on your efforts to attract larger institutional customers to interact with your order flow. And I was wondering if some of the talk about the changes in potential market structure, is that helping to drive some further discussions with other clients as well.

Milan Galik

Yes, we continue to attract institutional traders into our ATS. They have at their disposal— they have a number of order types they can trade against the client flow that we have. They can use peg to mid orders, they can use pegged best orders. We will continue the effort to get more onto the platform. We are approaching various algorithmic trading firms and algo providers. We believe that they would enjoy the quality of the flow that they get to interact with. As far as the upcoming changes that the SEC announced - to put them into perspective, the comment time period ends at the end of March. There are going to be a lot of industry participants responding to the proposals, we will submit our own comment letter. After that, it's going to be decided what will finally get accepted and adopted, and I think it is going to take approximately 2 years for any change to take place. Now as to what exactly is going to happen in the area of auctions, it somewhat depends, because the details were not really specified. What we do know is that some percentage of the retail flow will have to be exposed into the exchange auctions. This is typically a flow of clients that trade around 240 times in 6 months. So, these are not frequently-trading accounts, and their flow is going to be subject to auctions. But there is a way around that. If a broker holding this order does not want the order to go into an auction, he can fill it at the mid-price, at the mid-price that he can find somewhere at an open market, or at an ATS or in a dark pool, or he can fill it against his own inventory. Now, exactly what the limitations are going to be is unclear. The SEC may have a preference for a very large portion of these orders to go into the auctions, and limit the number of orders that the brokers can fill outside of the auctions. We don't know the details. And I think all this is going to be cleared up after the industry has time and opportunity to respond, and the SEC carefully evaluates the responses.

Operator

Thank you. At this time, I'd like to turn the call back over 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 will also be posting a clean version of our transcript on the site tomorrow. Thank you again, and we will talk to you next quarter end.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.