

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

---

*(Mark One)*

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2020**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission File Number: 001-33440**

**INTERACTIVE BROKERS GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**30-0390693**  
(I.R.S. Employer  
Identification No.)

**One Pickwick Plaza**  
**Greenwich, Connecticut 06830**  
(Address of principal executive office)

**(203) 618-5800**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company       Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Title of each class	Name of the exchange on which registered	Trading Symbol
Common Stock, par value \$0.01 per share	The Nasdaq Global Select Market	IBKR

As of November 6, 2020, there were 90,766,847 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

---

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2020

Table of Contents

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	
ITEM 1.	Financial Statements (Unaudited)	
	<a href="#">Condensed Consolidated Statements of Financial Condition</a>	2
	<a href="#">Condensed Consolidated Statements of Comprehensive Income</a>	3
	<a href="#">Condensed Consolidated Statements of Cash Flows</a>	4
	<a href="#">Condensed Consolidated Statements of Changes in Equity</a>	5
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	7
ITEM 2.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	40
ITEM 3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	65
ITEM 4.	<a href="#">Controls and Procedures</a>	70
<b>PART II.</b>	<b>OTHER INFORMATION</b>	
ITEM 1.	<a href="#">Legal Proceedings</a>	71
ITEM 1A.	<a href="#">Risk Factors</a>	71
ITEM 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	72
ITEM 3.	<a href="#">Defaults upon Senior Securities</a>	72
ITEM 5.	<a href="#">Other Information</a>	72
ITEM 6.	<a href="#">Exhibits</a>	73
	<a href="#">Signature</a>	

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS (Unaudited)

#### Interactive Brokers Group, Inc. and Subsidiaries Condensed Consolidated Statements of Financial Condition (Unaudited)

(in millions, except share amounts)	September 30, 2020	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 3,292	\$ 2,882
Cash - segregated for regulatory purposes	12,789	9,400
Securities - segregated for regulatory purposes	29,316	17,824
Securities borrowed	3,995	3,916
Securities purchased under agreements to resell	1,401	3,111
Financial instruments owned, at fair value		
Financial instruments owned	405	1,755
Financial instruments owned and pledged as collateral	47	161
Total financial instruments owned, at fair value	452	1,916
Receivables		
Customers, less allowance for credit losses of \$17 and \$86 as of September 30, 2020 and December 31, 2019	30,343	31,304
Brokers, dealers and clearing organizations	2,575	685
Interest	69	158
Total receivables	32,987	32,147
Other assets	466	480
Total assets	<u>\$ 84,698</u>	<u>\$ 71,676</u>
<b>Liabilities and equity</b>		
Short-term borrowings	\$ 628	\$ 16
Securities loaned	5,738	4,410
Securities sold under agreements to repurchase	—	1,909
Financial instruments sold, but not yet purchased, at fair value	187	457
Payables		
Customers	68,830	56,248
Brokers, dealers and clearing organizations	313	220
Affiliate	129	152
Accounts payable, accrued expenses and other liabilities	324	295
Interest	3	29
Total payables	69,599	56,944
Total liabilities	<u>76,152</u>	<u>63,736</u>
<b>Commitments, contingencies and guarantees (see Note 13)</b>		
<b>Equity</b>		
Stockholders' equity		
Common stock, \$0.01 par value per share		
Class A – Authorized - 1,000,000,000, Issued - 79,187,067 and 76,889,040 shares, Outstanding – 79,054,435 and 76,750,110 shares as of September 30, 2020 and December 31, 2019	1	1
Class B – Authorized, Issued and Outstanding – 100 shares as of September 30, 2020 and December 31, 2019	—	—
Additional paid-in capital	985	934
Retained earnings	621	520
Accumulated other comprehensive income, net of income taxes of \$0 and \$0 as of September 30, 2020 and December 31, 2019	5	—
Treasury stock, at cost, 132,632 and 138,930 shares as of September 30, 2020 and December 31, 2019	(3)	(3)
Total stockholders' equity	1,609	1,452
Noncontrolling interests	6,937	6,488
Total equity	8,546	7,940
Total liabilities and equity	<u>\$ 84,698</u>	<u>\$ 71,676</u>

See accompanying notes to the condensed consolidated financial statements.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

(in millions, except share or per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Revenues</b>				
Commissions	\$ 279	\$ 187	\$ 824	\$ 538
Other fees and services	45	35	123	105
Other income (loss)	29	(47)	25	(2)
Total non-interest income	353	175	972	641
Interest income	240	468	853	1,308
Interest expense	(45)	(177)	(206)	(512)
Total net interest income	195	291	647	796
Total net revenues	548	466	1,619	1,437
<b>Non-interest expenses</b>				
Execution, clearing and distribution fees	74	68	227	192
Employee compensation and benefits	77	67	239	213
Occupancy, depreciation and amortization	17	15	51	43
Communications	6	7	19	19
General and administrative	37	30	206	80
Customer bad debt	3	(2)	13	45
Total non-interest expenses	214	185	755	592
Income before income taxes	334	281	864	845
Income tax expense	32	20	65	50
Net income	302	261	799	795
Less net income attributable to noncontrolling interests	256	225	675	678
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
<b>Earnings per share</b>				
Basic	\$ 0.59	\$ 0.46	\$ 1.60	\$ 1.54
Diluted	\$ 0.58	\$ 0.45	\$ 1.58	\$ 1.52
<b>Weighted average common shares outstanding</b>				
Basic	78,509,625	76,742,789	77,543,008	75,910,080
Diluted	79,120,548	77,348,976	78,243,699	76,646,487
<b>Comprehensive income</b>				
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
Other comprehensive income				
Cumulative translation adjustment, before income taxes	8	(6)	5	(3)
Income taxes related to items of other comprehensive income	—	—	—	—
Other comprehensive income (loss), net of tax	8	(6)	5	(3)
Comprehensive income available for common stockholders	\$ 54	\$ 30	\$ 129	\$ 114
<b>Comprehensive income attributable to noncontrolling interests</b>				
Net income attributable to noncontrolling interests	\$ 256	\$ 225	\$ 675	\$ 678
Other comprehensive income - cumulative translation adjustment	37	(22)	24	(11)
Comprehensive income attributable to noncontrolling interests	\$ 293	\$ 203	\$ 699	\$ 667

See accompanying notes to the condensed consolidated financial statements.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

(in millions)	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Cash flows from operating activities		
Net income	\$ 799	\$ 795
Adjustments to reconcile net income to net cash from operating activities		
Deferred income taxes	12	17
Depreciation and amortization	31	21
Amortization of right-of-use assets	14	15
Employee stock plan compensation	46	43
Unrealized (gain) loss on other investments, net	(8)	(22)
Bad debt expense	13	45
Impairment loss	13	1
Change in operating assets and liabilities		
Securities - segregated for regulatory purposes	(11,492)	(5,651)
Securities borrowed	(79)	(679)
Securities purchased under agreements to resell	1,710	(149)
Financial instruments owned, at fair value	1,456	250
Receivables from customers	948	1,002
Other receivables	(1,801)	(153)
Other assets	(4)	(148)
Securities loaned	1,328	(82)
Securities sold under agreement to repurchase	(1,909)	—
Financial instruments sold, but not yet purchased, at fair value	(270)	296
Payable to customers	12,582	6,481
Other payables	83	96
Net cash provided by operating activities	<u>3,472</u>	<u>2,178</u>
Cash flows from investing activities		
Purchases of other investments	(2)	(19)
Distributions received and proceeds from sales of other investments	5	4
Purchase of property, equipment and intangible assets	(31)	(62)
Net cash used in investing activities	<u>(28)</u>	<u>(77)</u>
Cash flows from financing activities		
Short-term borrowings, net	612	(2)
Dividends paid to stockholders	(23)	(23)
Distributions from IBG LLC to noncontrolling interests	(247)	(303)
Repurchases of common stock for employee tax withholdings under stock incentive plans	(17)	(27)
Proceeds from the sale of treasury stock	18	26
Payments made under the Tax Receivable Agreement	(17)	(29)
Net cash provided by (used in) financing activities	<u>326</u>	<u>(358)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	29	(14)
Net increase in cash, cash equivalents, and restricted cash	3,799	1,729
Cash, cash equivalents, and restricted cash at beginning of period	12,282	10,100
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 16,081</u>	<u>\$ 11,829</u>
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents	3,292	3,035
Cash segregated for regulatory purposes	12,789	8,794
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 16,081</u>	<u>\$ 11,829</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 232</u>	<u>\$ 515</u>
Cash paid for taxes, net	<u>\$ 43</u>	<u>\$ 41</u>
Cash paid for amounts included in lease liabilities	<u>\$ 16</u>	<u>\$ 15</u>
Non-cash financing activities		
Issuance of common stock in exchange of member interests in IBG LLC	<u>\$ 52</u>	<u>\$ 1</u>
Redemption of member interests from IBG Holdings LLC	<u>\$ (52)</u>	<u>\$ (1)</u>
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	<u>\$ 21</u>	<u>\$ 24</u>
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	<u>\$ (21)</u>	<u>\$ (24)</u>

See accompanying notes to the condensed consolidated financial statements.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Equity**  
**Nine Months Ended September 30, 2020**  
**(Unaudited)**

(in millions, except share amounts)	Class A Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non- controlling Interests	Total Equity
	Issued Shares	Par Value							
Balance, January 1, 2020	76,889,040	\$ 1	\$ 934	\$ (3)	\$ 520	\$ —	\$ 1,452	\$ 6,488	\$ 7,940
Common stock distributed pursuant to stock incentive plans	311						—		—
Compensation for stock grants vesting in the future			3				3	13	16
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							—	(53)	(53)
Comprehensive income					46	(7)	39	213	252
Balance, March 31, 2020	<u>76,889,351</u>	<u>\$ 1</u>	<u>\$ 937</u>	<u>\$ (3)</u>	<u>\$ 558</u>	<u>\$ (7)</u>	<u>\$ 1,486</u>	<u>\$ 6,661</u>	<u>\$ 8,147</u>
Common stock distributed pursuant to stock incentive plans	1,297,716						—		—
Compensation for stock grants vesting in the future			2				2	11	13
Repurchases of common stock for employee tax withholdings under stock incentive plans				(17)			(17)		(17)
Sales of treasury stock				17			17	1	18
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							—	(129)	(129)
Adjustments for changes in proportionate ownership in IBG LLC			21				21	(21)	—
Comprehensive income					32	4	36	193	229
Balance, June 30, 2020	<u>78,187,067</u>	<u>\$ 1</u>	<u>\$ 960</u>	<u>\$ (3)</u>	<u>\$ 583</u>	<u>\$ (3)</u>	<u>\$ 1,538</u>	<u>\$ 6,716</u>	<u>\$ 8,254</u>
Issuance of common stock in follow-on offering	1,000,000		20				20	(20)	—
Compensation for stock grants vesting in the future			4				4	13	17
Deferred tax benefit retained - follow-on offering			1				1		1
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							—	(65)	(65)
Comprehensive income					46	8	54	293	347
Balance, September 30, 2020	<u>79,187,067</u>	<u>\$ 1</u>	<u>\$ 985</u>	<u>\$ (3)</u>	<u>\$ 621</u>	<u>\$ 5</u>	<u>\$ 1,609</u>	<u>\$ 6,937</u>	<u>\$ 8,546</u>

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Equity**  
**Nine Months Ended September 30, 2019**  
**(Unaudited)**

(in millions, except share amounts)	Class A Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non- controlling Interests	Total Equity
	Issued Shares	Par Value							
Balance, January 1, 2019	75,230,400	\$ 1	\$ 898	\$ (3)	\$ 390	\$ (4)	\$ 1,282	\$ 5,874	\$ 7,156
Common stock distributed pursuant to stock incentive plans	905						—		—
Compensation for stock grants vesting in the future			3				3	13	16
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							—	(60)	(60)
Comprehensive income					49	(1)	48	274	322
Balance, March 31, 2019	<u>75,231,305</u>	<u>\$ 1</u>	<u>\$ 901</u>	<u>\$ (3)</u>	<u>\$ 431</u>	<u>\$ (5)</u>	<u>\$ 1,325</u>	<u>\$ 6,101</u>	<u>\$ 7,426</u>
Common stock distributed pursuant to stock incentive plans	1,625,479						—		—
Compensation for stock grants vesting in the future			2				2	12	14
Repurchases of common stock for employee tax withholdings under stock incentive plans				(27)			(27)		(27)
Sales of treasury stock				27			27	(1)	26
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							—	(38)	(38)
Adjustments for changes in proportionate ownership in IBG LLC			24				24	(24)	—
Comprehensive income					32	4	36	190	226
Balance, June 30, 2019	<u>76,856,784</u>	<u>\$ 1</u>	<u>\$ 927</u>	<u>\$ (3)</u>	<u>\$ 456</u>	<u>\$ (1)</u>	<u>\$ 1,380</u>	<u>\$ 6,240</u>	<u>\$ 7,620</u>
Issuance of common stock in follow-on offering	21,075						—		—
Common stock distributed pursuant to stock incentive plans	441						—		—
Compensation for stock grants vesting in the future			3				3	10	13
Dividends paid to stockholders					(8)		(8)		(8)
Distributions from IBG LLC to noncontrolling interests							—	(205)	(205)
Comprehensive income					36	(6)	30	203	233
Balance, September 30, 2019	<u>76,878,300</u>	<u>\$ 1</u>	<u>\$ 930</u>	<u>\$ (3)</u>	<u>\$ 484</u>	<u>\$ (7)</u>	<u>\$ 1,405</u>	<u>\$ 6,248</u>	<u>\$ 7,653</u>

See accompanying notes to the condensed consolidated financial statements.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Organization of Business**

Interactive Brokers Group, Inc. (“IBG, Inc.”) is a Delaware holding company whose primary asset is its ownership of approximately 19.0% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC”). IBG, Inc. together with IBG LLC and its consolidated subsidiaries (collectively, “the Company”), is an automated global electronic broker specializing in executing and clearing trades in stocks, options, futures, foreign exchange instruments, bonds, mutual funds and exchange traded funds (“ETFs”) on more than 135 electronic exchanges and market centers around the world and offering custody, prime brokerage, securities and margin lending services to customers. In the United States of America (“U.S.”), the Company conducts its business primarily from its headquarters in Greenwich, Connecticut and from Chicago, Illinois. Abroad, the Company conducts its business through offices located in Canada, the United Kingdom, Luxembourg, Switzerland, India, China (Hong Kong and Shanghai), Japan, Singapore, and Australia. As of September 30, 2020, the Company had 1,923 employees worldwide.

IBG LLC is a Connecticut limited liability company that conducts its business through its significant operating subsidiaries: Interactive Brokers LLC (“IB LLC”); Interactive Brokers Canada Inc. (“IBC”); Interactive Brokers (U.K.) Limited (“IBUK”); Interactive Brokers Luxembourg SARL (“IBLUX”); IBKR Financial Services AG (“IBKRFS”); Interactive Brokers (India) Private Limited (“IBI”), Interactive Brokers Hong Kong Limited (“IBHK”), Interactive Brokers Securities Japan, Inc. (“IBSJ”), Interactive Brokers Singapore Private Limited (“IBSG”), and Interactive Brokers Australia Pty Limited (“IBA”).

Certain of the operating subsidiaries are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (see Note 15). IB LLC, IBC, IBUK, IBLUX, IBI, IBHK, IBSJ, IBSG, and IBA carry securities accounts for customers or perform custodial functions relating to customer securities.

**2. Significant Accounting Policies**

***Basis of Presentation***

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2019 Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 28, 2020. The condensed consolidated financial information as of December 31, 2019 has been derived from the audited financial statements not included herein.

These condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries and reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the periods presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

In March 2020, the World Health Organization recognized the outbreak of the Coronavirus Disease 2019 (“COVID-19”) caused by a novel strain of the coronavirus as a pandemic. The pandemic affects all countries in which we operate. The response of governments and societies to the COVID-19 pandemic, which includes temporary closures of businesses; social distancing; travel restrictions, “shelter in place” and other governmental regulations; and reduced consumer spending due to job losses, has significantly impacted market volatility and general economic conditions.

The impact of the COVID-19 pandemic on the Company could be significant but currently cannot be quantified, as it will depend on numerous evolving factors that currently cannot be accurately predicted, including, but not limited to the duration and spread of the pandemic; its impact on our customers, employees and vendors; governmental regulations in response to the pandemic; and the overall impact of the pandemic on the economy and society; among other factors. Any of these events could have significant accounting and financial reporting implications (i.e., reassessing accounting estimates related to credit losses, valuation of certain investments, deferred tax assets and contingency reserves). We have reviewed our assumptions related to the above estimates and have not made any adjustments.



**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***Principles of Consolidation, including Noncontrolling Interests***

These condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over IBG LLC's operations. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," the Company consolidates IBG LLC's financial statements and records the interests in IBG LLC that it does not own as noncontrolling interests.

The Company's policy is to consolidate all other entities in which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated.

***Condensed Consolidated Statements of Comprehensive Income and Operating Business Segment Presentation Changes***

As previously disclosed in the Company's 10-Q for the quarter ended March 31, 2017 and in subsequent filings, the Company intended to eliminate the reporting of separate operating business segments upon its determination that the continued wind-down of the Company's market making activity rendered it no longer reportable as a business segment. Pursuant to the requirements of FASB ASC Topic 280, "Segment Reporting," the Company performed a quantitative and a qualitative assessment of its business and determined that its remaining market making activity no longer supports the Company's reporting of separate business segments. Accordingly, effective the first quarter of 2020 the Company discontinued the reporting of separate business segments. Since the Company's decision to wind down its market making activities, management has continued to shift its focus to growing and strengthening the Company's electronic brokerage business. The Company believes the elimination of segment reporting aligns its financial reporting with its business strategy and management's focus on the electronic brokerage business. For each of the eight quarters during 2018 and 2019, the market making segment's contribution to the Company's consolidated net revenues, income before income taxes, and total assets did not exceed 7%, 4%, and 6%, respectively. As a result, effective the first quarter of 2020, the Company modified the presentation of its segment financial information with retrospective application to all prior periods presented.

In addition, effective the first quarter of 2020, the Company changed the presentation of its condensed consolidated statements of comprehensive income to better align with its business strategy. As a result, the Company made the following reclassifications to amounts reported in its condensed consolidated statement of comprehensive income for the three and nine months ended September 30, 2019:

- *Other fees and services* – reclassified \$35 million and \$105 million for the three and nine months ended September 30, 2019 previously reported as other income to other fees and services, which includes market data fees, account activity fees, risk exposure fees, order flow income from options exchange-mandated programs, and revenues from other fees and services. These items have been historically reported as a component of other income.
- *Other income* – reclassified \$7 million and \$20 million for the three and nine months ended September 30, 2019 previously reported as trading gains to other income as a component of "principal transactions." Other income includes gains (losses) from principal transactions; the impact of the currency diversification strategy; gains (losses) from equity method investments; and other revenues not directly attributable to the Company's core business offerings.

Previously reported amounts in the condensed consolidated statements of comprehensive income and notes to the condensed consolidated financial statements have been adjusted to conform to the current presentation.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in these condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for credit losses, valuation of certain investments, compensation accruals, current and deferred income taxes, and contingency reserves.

***Fair Value***

Substantially all of the Company's assets and liabilities, including financial instruments, are carried at fair value based on published market prices and are marked to market, or are assets and liabilities which are short-term in nature and are carried at amounts that approximate fair value.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The Company applies the fair value hierarchy in accordance with FASB ASC Topic 820, “Fair Value Measurement” (“ASC Topic 820”), to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets in an active market, quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are generally classified as Level 1 of the fair value hierarchy. The Company’s Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include active listed stocks, options, warrants, and U.S. and foreign government securities. The Company does not adjust quoted prices for financial instruments classified as Level 1 of the fair value hierarchy, even in the event that the Company may hold a large position whereby a purchase or sale could reasonably impact quoted prices.

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. Other securities that are not traded in active markets are also classified as Level 2 of the fair value hierarchy. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable in active markets and have been valued by the Company based on internal estimates.

### ***Earnings per Share***

Earnings per share (“EPS”) is computed in accordance with FASB ASC Topic 260, “Earnings per Share.” Basic EPS is computed by dividing the net income available for common stockholders by the weighted average number of shares outstanding for that period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company’s stock-based compensation plans, with no adjustments to net income available for common stockholders for potentially dilutive common shares.

### ***Current Expected Credit Losses***

On January 1, 2020, the Company adopted FASB ASC Topic 326 – “Financial Instruments – Credit Losses” (“ASC Topic 326”) which replaces the incurred loss methodology with the current expected credit loss (“CECL”) methodology. The new guidance applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets. Expected credit losses on off-balance sheet credit exposures must be estimated over the contractual period the Company is exposed to credit risk as a result of a present obligation to extend credit.

The Company adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets, which did not result in an adjustment to the opening balance in retained earnings. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP. The impact to the current period is not material since the Company’s in-scope assets are primarily subject to collateral maintenance provisions for which the Company elected to apply the practical expedient of reporting the difference between the fair value of collateral and the amortized cost for the in-scope assets as the allowance for current expected credit losses.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses and clearing banks.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***Cash and Securities - Segregated for Regulatory Purposes***

As a result of customer activities, certain operating subsidiaries are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which have been promulgated to protect customer assets. Restricted cash represents cash and cash equivalents that are subject to withdrawal or usage restrictions. Cash segregated for regulatory purposes meets the definition of restricted cash and is included in “cash, cash equivalents, and restricted cash” in the condensed consolidated statements of cash flows.

The table below presents the composition of the Company’s securities segregated for regulatory purposes for the periods indicated.

	September 30, 2020	December 31, 2019
	(in billions)	
U.S. government securities	\$ 5.0	\$ 3.8
Securities purchased under agreements to resell <sup>1</sup>	24.3	14.0
	<u>\$ 29.3</u>	<u>\$ 17.8</u>

(1) These balances are collateralized by U.S. government securities.

***Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Securities borrowed transactions require the Company to provide counterparties with collateral, which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, the Company receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. The Company’s policy is to net, in the condensed consolidated statements of financial condition, securities borrowed and securities loaned entered into with the same counterparty that meet the offsetting requirements prescribed in FASB ASC Topic 210-20, “Balance Sheet – Offsetting” (“ASC Topic 210-20”).

Securities lending fees received and paid by the Company are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Securities purchased under agreements to resell and securities sold under agreements to repurchase, which are reported as collateralized financing transactions, are recorded at contract value, which approximates fair value. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company’s policy is to net, in the condensed consolidated statements of financial condition, securities purchased under agreements to resell transactions and securities sold under agreements to repurchase transactions entered into with the same counterparty that meet the offsetting requirements prescribed in ASC Topic 210-20.

***Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased, at Fair Value***

Financial instrument transactions are accounted for on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased are stated at fair value based upon quoted market prices, or if not available, are valued by the Company based on internal estimates (see Fair Value above). The Company’s financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are reported as financial instruments owned and pledged as collateral in the condensed consolidated statements of financial condition.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***Customer Receivables and Payables***

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are recorded as customer bad debt expense in the condensed consolidated statements of comprehensive income.

***Receivables from and Payables to Brokers, Dealers and Clearing Organizations***

Receivables from and payables to brokers, dealers and clearing organizations include net receivables and payables from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities not delivered by the Company to the purchaser by the settlement date (“fails to deliver”) and cash deposits. Payables to brokers, dealers and clearing organizations also include amounts payable for securities not received by the Company from a seller by the settlement date (“fails to receive”).

***Investments***

The Company makes certain strategic investments related to its business which are included in other assets in the consolidated statements of financial condition. The Company accounts for these investments as follows:

- Under the equity method of accounting as required under FASB ASC Topic 323, “Investments - Equity Method and Joint Ventures.” These investments, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of the Company’s initial investment and are adjusted each period for the Company’s share of the investee’s income or loss. Contributions paid to and distributions received from equity method investees are recorded as additions or reductions, respectively, to the respective investment balance.
- At fair value if the investment in equity securities has a readily determinable fair value.
- At adjusted cost if the investment does not have a readily determinable fair value. Adjusted cost represents the historical cost, less impairment, if any. If the Company identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, the Company measures the equity security at fair value as of the date that the observable transaction occurred in accordance with FASB ASC Topic 321, “Investments in Equity Securities.”

A judgmental aspect of accounting for investments is evaluating whether a decline in the value of an investment has occurred. The evaluation of an impairment is dependent on specific quantitative and qualitative factors and circumstances surrounding an investment, including recurring operating losses, credit defaults and subsequent rounds of financing. Most of the Company’s equity investments do not have readily determinable market values. All investments are reviewed for changes in circumstances or occurrence of events that suggest the Company’s investment may not be recoverable. An impairment loss, if any, is recognized in the period the determination is made.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The table below presents the composition of the Company's investments for the periods indicated.

	September 30, 2020	December 31, 2019
	(in millions)	
Equity method investments <sup>1</sup>	\$ 9	\$ 22
Investments in equity securities at adjusted cost <sup>2</sup>	7	5
Investments in equity securities at fair value <sup>2</sup>	48	36
Investments in exchange memberships and equity securities of certain exchanges <sup>2</sup>	3	3
	<u>\$ 67</u>	<u>\$ 66</u>

- (1) The Company's share of income or losses is included in other income in the condensed consolidated statements of comprehensive income.
- (2) These investments do not qualify for equity method of accounting and the dividends received are included in other income in the condensed consolidated statements of comprehensive income.

***Property, Equipment, and Intangible Assets***

Property, equipment, and intangible assets, which are included in other assets in the condensed consolidated statements of financial condition, consist of leasehold improvements, computer equipment, software developed for the Company's internal use, office furniture and equipment.

Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives of three years, and tested for recoverability whenever events indicate that the carrying amounts may not be recoverable. Qualifying costs for internally developed software are capitalized and amortized over the expected useful life of the developed software, not to exceed three years. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the condensed consolidated statements of financial condition and any resulting gain or loss is recorded in other income in the condensed consolidated statements of comprehensive income. Fully depreciated (or amortized) assets are retired periodically throughout the year.

***Leases***

The Company reviews all relevant contracts to determine if the contract contains a lease at its inception date. A contract contains a lease if the contract conveys to the company the right to control the use of an underlying asset for a period of time in exchange for consideration. If the Company determines that a contract contains a lease, it recognizes, in the condensed consolidated statements of financial condition, a lease liability and a corresponding right-of-use asset on the commencement date of the lease. The lease liability is initially measured at the present value of the future lease payments over the lease term using the rate implicit in the lease or, if not readily determinable, the Company's secured incremental borrowing rate. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

The Company's leases are classified as operating leases and consist of real estate leases for office space, data centers and other facilities. Each lease liability is measured using the Company's secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of third parties' corporate debt issued with a similar risk profile as the Company and a duration similar to the lease term. The Company's leases have remaining terms of one to twelve years, some of which include options to extend the lease term, and some of which include options to terminate the lease upon notice. The Company considers these options when determining the lease term used to calculate the right-of-use asset and the lease liability when the Company is reasonably certain it will exercise such option.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The Company's operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company elected to measure the lease liability by combining the lease and non-lease components as a single lease component. As such, the Company includes the fixed payments and any payments that depend on a rate or index that relate to the lease and non-lease components in the measurement of the lease liability. Some of the non-lease components are variable in nature and not based on an index or rate, and as a result, are not included in the measurement of the right-of-use asset or lease liability.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in occupancy, depreciation and amortization, expense in the Company's condensed consolidated statements of comprehensive income.

***Comprehensive Income and Foreign Currency Translation***

The Company's operating results are reported in the condensed consolidated statements of comprehensive income pursuant to FASB ASC Topic 220, "Comprehensive Income."

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). The Company's OCI is comprised of gains and losses resulting from translating foreign currency financial statements of non-U.S. subsidiaries, net of related income taxes, where applicable. In general, the practice and intention of the Company is to reinvest the earnings of its non-U.S. subsidiaries in those operations, therefore tax is usually not accrued on OCI.

The Company's non-U.S. domiciled subsidiaries have a functional currency that is other than the U.S. dollar. Such subsidiaries' assets and liabilities are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency to the U.S. dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the condensed consolidated statements of financial condition.

***Revenue Recognition***

*Commissions*

Commissions earned for executing and/or clearing transactions are accrued on a trade date basis and are reported as commissions in the condensed consolidated statements of comprehensive income. Commissions also include payments for order flow income related to IBKR Lite<sup>SM</sup> customers. See Note 8 for further information on revenue from contracts with customers.

*Other fees and services*

The Company earns fee income on services provided to customers, which includes market data fees, risk exposure fees, payments for order flow from exchange-mandated programs, minimum activity fees, and other fees and services charged to customers. Fee income is recognized either daily or monthly. See Note 8 for further information on revenue from contracts with customers.

*Interest Income and Expense*

The Company earns interest income and incurs interest expense primarily in connection with its electronic brokerage customer business and its securities lending activities, which are recorded on an accrual basis and are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

*Principal Transactions*

Principal transactions include gains and losses as a result of changes in the fair value of financial instruments owned, at fair value, financial instruments sold, but not yet purchased, at fair value, and other investments measured at fair value (i.e., unrealized gains and losses) and realized gains and losses related to the Company's principal transactions. Included are net gains and losses on stocks, options, U.S. and foreign government securities, futures, foreign exchange and other derivative instruments. Dividends are integral to the valuation of stocks. Accordingly, dividends income and expense attributable to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, are reported on a net basis in other income in the condensed consolidated statements of comprehensive income.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

*Foreign Currency Gains and Losses*

Foreign currency balances are assets and liabilities in currencies other than the Company's functional currency. At every reporting date, the Company revalues its foreign currency balances to its functional currency at the spot exchange rate and records the associated foreign currency gains and losses. These foreign currency gains and losses are reported in the condensed consolidated statements of comprehensive income, as follows: (a) foreign currency gains and losses related to the Company's currency diversification strategy are reported in other income; (b) foreign currency gains and losses arising from currency swap transactions are reported in interest income or interest expense; and (c) all other foreign currency gains and losses are reported in other income.

*Rebates*

Rebates consist of volume discounts, credits or payments received from exchanges or other market centers related to the placement and/or removal of liquidity from the marketplace and are recorded on an accrual basis. Rebates are recorded net within execution, clearing and distribution fees in the condensed consolidated statements of comprehensive income. Rebates received for trades executed on behalf of customers that elect tiered pricing are passed, in whole or part, to these customers; and such pass-through amounts are recorded net within commissions in the condensed consolidated statements of comprehensive income.

*Stock-Based Compensation*

The Company follows FASB ASC Topic 718, "Compensation - Stock Compensation" ("ASC Topic 718"), to account for its stock-based compensation plans. ASC Topic 718 requires all share-based payments to employees to be recognized in the consolidated financial statements using a fair value-based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows: 50% in the year of grant in recognition of the plans' post-employment provisions (as described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC Topic 718. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under stock-based compensation plans are subject to the plans' post-employment provisions in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans' post-employment provisions will be eligible to earn 50% of previously granted but not yet earned awards, unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of previously granted but not yet earned awards.

*Income Taxes*

The Company accounts for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" ("ASC Topic 740"). The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (see Note 11) and reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgment and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future.

The Company records tax liabilities in accordance with ASC Topic 740 and adjusts these liabilities when management's judgment

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

The Company recognizes a tax benefit from an uncertain tax position only when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. A tax position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement.

The Company recognizes interest related to income tax matters as interest income or interest expense and penalties related to income tax matters as income tax expense in the condensed consolidated statements of comprehensive income.



**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***FASB Standards Adopted During 2020***

<b>Standard</b>	<b>Summary of guidance</b>	<b>Effect on financial statements</b>
Financial instruments – credit losses (Topic 326)  <i>Issued June 2016</i>	<ul style="list-style-type: none"> <li>Replaces the current incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost.</li> <li>The allowance shall reflect managements’ estimate of credit losses over the life of the asset taking future economic changes into consideration.</li> <li>As of the beginning of the reporting period of adoption, a cumulative-effect adjustment to retained earnings shall be recognized.</li> </ul>	<ul style="list-style-type: none"> <li>Adopted January 1, 2020.</li> <li>The changes did not have a material impact on the Company’s condensed consolidated financial statements. The Company elected the practical expedient relating to financial assets subject to collateral maintenance provisions.</li> </ul>
Fair Value Measurement (Topic 820)  <i>Issued August 2018</i>	<ul style="list-style-type: none"> <li>Eliminates the requirement to disclose: (a) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (b) an entity’s policy for timing of transfers between levels; (c) and an entity’s valuation processes for Level 3 fair value measurements.</li> </ul>	<ul style="list-style-type: none"> <li>Adopted January 1, 2020.</li> <li>Changes relating to Level 3 fair value measurements were applied prospectively. All other changes were applied retrospectively.</li> <li>The adoption of the guidance did not have a material impact on the Company’s condensed consolidated financial statements.</li> </ul>
Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606)  <i>Issued August 2019</i>	<ul style="list-style-type: none"> <li>Requires that share-based payments granted to customers as part of a revenue arrangement and are not in exchange for a distinct good or service, be recorded as a reduction in transaction price using the grant date fair value.</li> <li>Share-based payments shall be measured and classified under ASC 718 unless they are subsequently modified and the grantee is no longer a customer, in which case they shall be classified under other U.S. GAAP.</li> </ul>	<ul style="list-style-type: none"> <li>Adopted January 1, 2020.</li> <li>The guidance was applied using a modified retrospective approach.</li> <li>The changes did not have a material impact on the Company’s condensed consolidated financial statements.</li> </ul>

***FASB Standards issued but not adopted as of September 30, 2020***

<b>Standard</b>	<b>Summary of guidance</b>	<b>Effect on financial statements</b>
Income Taxes (Topic 740)  <i>Issued December 2019</i>	<ul style="list-style-type: none"> <li>Simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740.</li> </ul>	<ul style="list-style-type: none"> <li>Effective date: January 1, 2021. Early adoption is permitted.</li> <li>The guidance is being evaluated for impact.</li> </ul>

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

### 3. Trading Activities and Related Risks

Trading activities expose the Company to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. To accomplish this, management has established a risk management process that includes:

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and
- articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that the Company's risk-taking is consistent with its business strategy, its capital structure, and current and anticipated market conditions.

#### *Market Risk*

The Company is exposed to various market risks. Exposures to market risks arise from equity price risk, foreign currency exchange rate fluctuations and changes in interest rates. The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and exchange traded derivatives to hedge its market exposures. The Company does not apply hedge accounting. The following discussion describes the types of market risk faced:

##### *Equity Price Risk*

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. The Company is subject to equity price risk primarily in financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value. The Company attempts to limit such risks by continuously reevaluating prices and by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security.

##### *Currency Risk*

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company manages this risk using spot (i.e., cash) currency transactions, currency futures contracts and currency forward contracts. The Company actively manages its currency exposure using a currency diversification strategy that is based on a defined basket of currencies internally referred to as the "GLOBAL." These strategies minimize the fluctuation of the Company's net worth as expressed in GLOBALs, thereby diversifying its risk in alignment with these global currencies, weighted by the Company's view of their importance. As the Company's financial results are reported in U.S. dollars, the change in the value of the GLOBAL as expressed in U.S. dollars affects the Company's earnings. The impact of this currency diversification strategy in the Company's earnings is included in other income in the condensed consolidated statements of comprehensive income.

As a result of a periodic assessment, effective as of the close of business on June 30, 2020, the Company reduced the number of currencies in the GLOBAL from 14 to 10 and realigned the relative weights of each component to better reflect the global diversification of its business going forward. The Company removed the Danish krone (DKK), the Mexican peso (MXN), the Norwegian krone (NOK) and the Swedish krona (SEK).

##### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk on cash and margin balances, positions carried in equity and fixed income securities, options, futures and on its borrowings. These risks are managed through investment policies and by entering into interest rate futures contracts.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Credit Risk**

The Company is exposed to risk of loss if a customer, counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and derivatives expose the Company to default risk. The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

The Company’s credit risk is limited as contracts entered into are settled directly at securities and commodities clearing houses or are settled through member firms and banks with substantial financial and operational resources. Over-the-counter transactions, such as securities lending and contracts for differences (“CFDs”), are marked to market daily and are conducted with counterparties that have undergone a thorough credit review. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, the Company may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, the Company enters into short-term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“repos”) in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Company attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company as permitted under contractual provisions.

**Concentrations of Credit Risk**

The Company’s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of September 30, 2020, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

**Off-Balance Sheet Risks**

The Company may be exposed to a risk of loss not reflected in the condensed consolidated financial statements to settle futures and certain over-the-counter contracts at contracted prices, which may require repurchase or sale of the underlying products in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company’s cost to liquidate such contracts may exceed the amounts reported in the Company’s condensed consolidated statements of financial condition.

**4. Equity and Earnings per Share**

In connection with IBG, Inc.’s initial public offering of Class A common stock (“IPO”) in May 2007, it purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC (“Holdings”), became the sole managing member of IBG LLC and began to consolidate IBG LLC’s financial results into its financial statements. Holdings owns all of IBG, Inc.’s Class B common stock, which has voting rights in proportion to its ownership interests in IBG LLC. The table below presents the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of September 30, 2020.

	<b><u>IBG, Inc.</u></b>	<b><u>Holdings</u></b>	<b><u>Total</u></b>
Ownership %	19.0%	81.0%	100.0%
Membership interests	79,057,622	337,670,642	416,728,264

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

These condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC and its subsidiaries. The noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity in the condensed consolidated statements of financial condition.

***Recapitalization and Post-IPO Capital Structure***

Immediately prior to and immediately following the consummation of the IPO, IBG, Inc., Holdings, IBG LLC and the members of IBG LLC consummated a series of transactions collectively referred to herein as the “Recapitalization.” In connection with the Recapitalization, IBG, Inc., Holdings and the historical members of IBG LLC entered into an exchange agreement, dated as of May 3, 2007 (the “Exchange Agreement”), pursuant to which the historical members of IBG LLC received membership interests in Holdings in exchange for their membership interests in IBG LLC. Additionally, IBG, Inc. became the sole managing member of IBG LLC.

In connection with the consummation of the IPO, Holdings used the net proceeds to redeem 10.0% of members’ interests in Holdings in proportion to their interests. Immediately following the Recapitalization and IPO, Holdings owned approximately 90% of IBG LLC and 100% of IBG, Inc.’s Class B common stock.

Since consummation of the IPO and Recapitalization, IBG, Inc.’s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As of September 30, 2020 and December 31, 2019, 1,000,000,000 shares of Class A common stock were authorized, of which 79,187,067 and 76,889,040 shares have been issued; and 79,054,435 and 76,750,110 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2020 and December 31, 2019, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2020 and December 31, 2019, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with subsequent redemptions of Holdings member interests in exchange for common stock. These deferred tax assets are included in other assets in the Company’s condensed consolidated statements of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the additional redemption dates, respectively, as allowable under current tax law. As of September 30, 2020 and December 31, 2019, the unamortized balance of these deferred tax assets was \$107 million and \$116 million, respectively.

IBG, Inc. also entered into an agreement (the “Tax Receivable Agreement”) with Holdings to pay Holdings (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax basis increases. These payables to Holdings are reported as payable to affiliate in the Company’s condensed consolidated statements of financial condition. The remaining 15% is accounted for as a permanent increase to additional paid-in capital in the Company’s condensed consolidated statements of financial condition.

The cumulative amounts of deferred tax assets, payables to Holdings and additional paid-in capital arising from stock offerings from the date of the IPO through September 30, 2020 were \$506 million, \$430 million, and \$76 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually following the filing of IBG, Inc.’s federal income tax return. The Company has paid Holdings a cumulative total of \$205 million through September 30, 2020 pursuant to the terms of the Tax Receivable Agreement.

The Exchange Agreement, as amended, provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from Holdings, which could result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, members of Holdings are able to request redemption of their interests.

At the time of IBG, Inc.’s IPO in 2007, three hundred sixty (360) million shares of authorized common stock were reserved for future sales and redemptions. From 2008 through 2010, Holdings redeemed 5,013,259 IBG LLC interests with a total value of \$114 million, which redemptions were funded using cash on hand at IBG LLC. Upon cash redemption these IBG LLC interests were retired. From 2011 through 2019, IBG, Inc. issued 15,417,157 shares of common stock (with a fair value of \$506 million) directly to Holdings in exchange for an equivalent number of member interests in IBG LLC.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

On July 27, 2020, the Company filed a Prospectus Supplement on Form 424B (File Number 333-240121) with the SEC to register up to 990,000 shares of common stock, offering the opportunity for eligible persons to receive awards in the form of an offer to receive such shares by participating in one or more promotions that are designed to attract new customers to the Company's brokerage platform, increase assets held with the Company's brokerage business and enhance customer loyalty.

On August 20, 2020, the Company filed a Prospectus Supplement on Form 424B5 with the SEC to issue 1,000,000 shares of common stock (with a fair value of \$52 million) in exchange for an equivalent number of shares of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (see Note 10), IBG, Inc.'s interest in IBG LLC has increased to approximately 19.0%, with Holdings owning the remaining 81.0% as of September 30, 2020. The redemptions also resulted in an increase in the Holdings interest held by Mr. Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 89.6% as of September 30, 2020.

On October 30, 2020, the Company filed a Prospectus Supplement on Form 424B5 with the SEC to issue 11,710,608 shares of common stock (with a fair value of \$557 million) in exchange for an equivalent number of shares of member interests in IBG LLC. This issuance of shares increased the Company's ownership in IBG LLC from 19.0% to 21.8%. This redemption also resulted in an increase in the Holdings interest held by Mr. Thomas Peterffy and his affiliates to approximately 89.8% as of October 31, 2020.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Earnings per Share**

Basic earnings per share is calculated utilizing net income available for common stockholders divided by the weighted average number of shares of Class A and Class B common stock outstanding for that period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in millions, except share or per share amounts)				
Basic earnings per share				
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
Weighted average shares of common stock outstanding				
Class A	78,509,525	76,742,689	77,542,908	75,909,980
Class B	100	100	100	100
	<u>78,509,625</u>	<u>76,742,789</u>	<u>77,543,008</u>	<u>75,910,080</u>
Basic earnings per share	<u>\$ 0.59</u>	<u>\$ 0.46</u>	<u>\$ 1.60</u>	<u>\$ 1.54</u>

Diluted earnings per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in millions, except share or per share amounts)				
Diluted earnings per share				
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
Weighted average shares of common stock outstanding				
Class A				
Issued and outstanding	78,509,525	76,742,689	77,542,908	75,909,980
Potentially dilutive common shares				
Issuable pursuant to employee stock incentive plans	610,923	606,187	700,691	736,407
Class B	100	100	100	100
	<u>79,120,548</u>	<u>77,348,976</u>	<u>78,243,699</u>	<u>76,646,487</u>
Diluted earnings per share	<u>\$ 0.58</u>	<u>\$ 0.45</u>	<u>\$ 1.58</u>	<u>\$ 1.52</u>

**Member Distributions and Stockholder Dividends**

During the nine months ended September 30, 2020, IBG LLC made distributions totaling \$304 million, to its members, of which IBG, Inc.'s proportionate share was \$57 million. In March, June, and September 2020, the Company paid quarterly cash dividends of \$0.10 per share of common stock, totaling \$8 million, \$7 million, and \$8 million, respectively.

On October 20, 2020, the Company declared a cash dividend of \$0.10 per common share, payable on December 14, 2020 to stockholders of record as of December 1, 2020.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**5. Comprehensive Income**

The table below presents comprehensive income and earnings per share on comprehensive income for the periods indicated.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
(in millions, except share or per share amounts)				
Comprehensive income available for common stockholders	\$ 54	\$ 30	\$ 129	\$ 114
Earnings per share on comprehensive income				
Basic	\$ 0.69	\$ 0.39	\$ 1.67	\$ 1.50
Diluted	\$ 0.69	\$ 0.39	\$ 1.65	\$ 1.49
Weighted average common shares outstanding				
Basic	78,509,625	76,742,789	77,543,008	75,910,080
Diluted	79,120,548	77,348,976	78,243,699	76,646,487

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**6. Financial Assets and Financial Liabilities**

***Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The tables below present, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, measured at fair value on a recurring basis for the periods indicated. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	<b>Financial Assets at Fair Value as of September 30, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(in millions)			
Securities segregated for regulatory purposes	\$ 4,974	\$ —	\$ —	\$ 4,974
Financial instruments owned, at fair value				
Stocks	375	—	1	376
Options	29	—	—	29
Warrants	—	—	—	—
U.S. and foreign government securities	28	—	—	28
Corporate bonds	—	—	3	3
Currency forward contracts	—	16	—	16
Total financial instruments owned, at fair value	432	16	4	452
Other assets - other investments at fair value	48	—	—	48
Total financial assets at fair value	<u>\$ 5,454</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 5,474</u>

	<b>Financial Liabilities at Fair Value as of September 30, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 158	\$ —	\$ —	\$ 158
Options	27	—	—	27
Currency forward contracts	—	2	—	2
Total financial instruments sold, but not yet purchased, at fair value	185	2	—	187
Total financial liabilities at fair value	<u>\$ 185</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 187</u>

	<b>Financial Assets at Fair Value as of December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(in millions)			
Securities segregated for regulatory purposes	\$ 3,797	\$ —	\$ —	\$ 3,797
Financial instruments owned, at fair value				
Stocks	540	—	—	540
Options	1,333	—	—	1,333
Warrants	—	—	—	—
U.S. and foreign government securities	34	—	—	34
Corporate bonds	—	—	3	3
Currency forward contracts	—	6	—	6
Total financial instruments owned, at fair value	1,907	6	3	1,916
Other assets - other investments at fair value	36	—	—	36
Total financial assets at fair value	<u>\$ 5,740</u>	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ 5,749</u>



**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

	Financial Liabilities at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 183	\$ —	\$ —	\$ 183
Options	273	—	—	273
Currency forward contracts	—	1	—	1
Total financial instruments sold, but not yet purchased, at fair value	456	1	—	457
Total financial liabilities at fair value	\$ 456	\$ 1	\$ —	\$ 457

**Level 3 Financial Assets and Financial Liabilities**

The Company's Level 3 financial assets are comprised of delisted and illiquid securities reported within financial instruments owned, at fair value in the condensed consolidated statements of financial condition. As of September 30, 2020, Level 3 financial assets included \$3 million in corporate bonds and \$1 million in stocks which were not traded in active markets and were valued by the Company based on internal estimates.

**Financial Assets and Liabilities Not Measured at Fair Value**

The tables below represent the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Company's condensed consolidated statements of financial condition for the periods indicated. The tables below exclude certain financial instruments such as equity investments and all non-financial assets and liabilities.

	September 30, 2020				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 3,292	\$ 3,292	\$ 3,292	\$ —	\$ —
Cash - segregated for regulatory purposes	12,789	12,789	12,789	—	—
Securities - segregated for regulatory purposes	24,342	24,342	—	24,342	—
Securities borrowed	3,995	3,995	—	3,995	—
Securities purchased under agreements to resell	1,401	1,401	—	1,401	—
Receivables from customer	30,343	30,343	—	30,343	—
Receivables from broker, dealers, and clearing organizations	2,575	2,575	—	2,575	—
Interest receivable	69	69	—	69	—
Other assets	11	11	—	2	9
Total financial assets, not measured at fair value	\$ 78,817	\$ 78,817	\$ 16,081	\$ 62,727	\$ 9
Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 628	\$ 628	\$ —	\$ 628	\$ —
Securities loaned	5,738	5,738	—	5,738	—
Payables to customer	68,830	68,830	—	68,830	—
Payables to brokers, dealers and clearing organizations	313	313	—	313	—
Interest payable	3	3	—	3	—
Total financial liabilities, not measured at fair value	\$ 75,512	\$ 75,512	\$ —	\$ 75,512	\$ —

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

	December 31, 2019				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 2,882	\$ 2,882	\$ 2,882	\$ —	\$ —
Cash - segregated for regulatory purposes	9,400	9,400	9,400	—	—
Securities - segregated for regulatory purposes	14,027	14,027	—	14,027	—
Securities borrowed	3,916	3,916	—	3,916	—
Securities purchased under agreements to resell	3,111	3,111	—	3,111	—
Receivables from customer	31,304	31,304	—	31,304	—
Receivables from broker, dealers, and clearing organizations	685	685	—	685	—
Interest receivable	158	158	—	158	—
Other assets	9	9	—	3	6
Total financial assets, not measured at fair value	\$ 65,492	\$ 65,492	\$ 12,282	\$ 53,204	\$ 6
Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 16	\$ 16	\$ —	\$ 16	\$ —
Securities loaned	4,410	4,410	—	4,410	—
Securities sold under agreements to repurchase	1,909	1,909	—	1,909	—
Payables to customer	56,248	56,248	—	56,248	—
Payables to brokers, dealers and clearing organizations	220	220	—	220	—
Interest payable	29	29	—	29	—
Total financial liabilities, not measured at fair value	\$ 62,832	\$ 62,832	\$ —	\$ 62,832	\$ —

***Netting of Financial Assets and Financial Liabilities***

The Company's policy is to net securities borrowed and securities loaned, and securities purchased under agreements to resell and securities sold under agreements to repurchase that meet the offsetting requirements prescribed in ASC Topic 210-20. In the tables below, the amounts of financial instruments that are not offset in the condensed consolidated statements of financial condition, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing houses (exchange traded options, warrants and discount certificates) or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company's net payable or receivable with counterparties for these financial instruments.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The tables below present the netting of financial assets and of financial liabilities for the periods indicated.

	September 30, 2020				
	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Consolidated Statement of Financial Condition <sup>2</sup>	Net Amounts Presented in the Condensed Consolidated Statement of Financial Condition	Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition  Cash or Financial Instruments	Net Amount
	(in millions)				
Offsetting of financial assets					
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 24,342 <sup>1</sup>	\$ —	\$ 24,342	\$ (24,342)	\$ —
Securities borrowed	3,995	—	3,995	(3,822)	173
Securities purchased under agreements to resell	1,401	—	1,401	(1,401)	—
Financial instruments owned, at fair value					
Options	29	—	29	(26)	3
Currency forward contracts	16	—	16	—	16
<b>Total</b>	<b>\$ 29,783</b>	<b>\$ —</b>	<b>\$ 29,783</b>	<b>\$ (29,591)</b>	<b>\$ 192</b>
Offsetting of financial liabilities					
Securities loaned	\$ 5,738	\$ —	\$ 5,738	\$ (5,404)	\$ 334
Financial instruments sold, but not yet purchased, at fair value					
Options	27	—	27	(26)	1
Currency forward contracts	2	—	2	—	2
<b>Total</b>	<b>\$ 5,767</b>	<b>\$ —</b>	<b>\$ 5,767</b>	<b>\$ (5,430)</b>	<b>\$ 337</b>

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

	December 31, 2019				
	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Condensed Consolidated Statement of Financial Condition <sup>2</sup>	Net Amounts Presented in the Condensed Consolidated Statement of Financial Condition	Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition Cash or Financial Instruments	Net Amount
(in millions)					
Offsetting of financial assets					
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 14,027 <sup>1</sup>	\$ —	\$ 14,027	\$ (14,027)	\$ —
Securities borrowed	3,916	—	3,916	(3,765)	151
Securities purchased under agreements to resell	3,111	—	3,111	(3,111)	—
Financial instruments owned, at fair value					
Options	1,333	—	1,333	(267)	1,066
Currency forward contracts	6	—	6	—	6
<b>Total</b>	<b>\$ 22,393</b>	<b>\$ —</b>	<b>\$ 22,393</b>	<b>\$ (21,170)</b>	<b>\$ 1,223</b>
Offsetting of financial liabilities					
Securities loaned	\$ 4,410	\$ —	\$ 4,410	\$ (4,186)	\$ 224
Securities sold under agreements to repurchase	1,909	—	1,909	(1,909)	—
Financial instruments sold, but not yet purchased, at fair value					
Options	273	—	273	(267)	6
Currency forward contracts	1	—	1	—	1
<b>Total</b>	<b>\$ 6,593</b>	<b>\$ —</b>	<b>\$ 6,593</b>	<b>\$ (6,362)</b>	<b>\$ 231</b>

- (1) As of September 30, 2020 and December 31, 2019, the Company had \$24.3 billion and \$14.0 billion, respectively, of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in “Securities - segregated for regulatory purposes” in the condensed consolidated statements of financial condition.
- (2) The Company did not have any balances eligible for netting in accordance with ASC Topic 210-20 at September 30, 2020 and December 31, 2019.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Secured Financing Transactions – Maturities and Collateral Pledged**

The tables below present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged for the periods indicated.

	September 30, 2020				Total
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 – 90 days	Over 90 days	
	(in millions)				
Securities loaned					
Stocks	\$ 5,696	\$ —	\$ —	\$ —	\$ 5,696
Corporate bonds	41	—	—	—	41
Foreign government securities	1	—	—	—	1
Total	<u>\$ 5,738</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,738</u>

	December 31, 2019				Total
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 – 90 days	Over 90 days	
	(in millions)				
Securities loaned					
Stocks	\$ 4,356	\$ —	\$ —	\$ —	\$ 4,356
Corporate bonds	54	—	—	—	54
Total securities loaned	<u>4,410</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,410</u>
Securities sold under agreements to repurchase					
U.S. government securities	1,909	—	—	—	1,909
Total	<u>\$ 6,319</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,319</u>

**7. Collateralized Transactions**

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to finance trading inventory, to obtain securities for settlement and to earn residual interest rate spreads. In addition, the Company's customers pledge their securities owned to collateralize margin loans. Under these transactions, the Company either receives or provides collateral, including equity, corporate debt and U.S. government securities. Under typical agreements, the Company is permitted to sell or repledge securities received as collateral and use these securities to secure securities purchased under agreements to resell, enter into securities lending transactions or deliver these securities to counterparties to cover short positions.

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Company's policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary, to avoid automatic liquidation of their positions.

Margin loans are extended to customers on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the customer account and an overall evaluation of the customer's portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. As of September 30, 2020 and December 31, 2019, approximately \$30.3 billion and \$31.3 billion, respectively, of customer margin loans were outstanding.

The table below presents a summary of the amounts related to collateralized transactions for the periods indicated.

	September 30, 2020		December 31, 2019	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
	(in millions)			
Securities lending transactions	\$ 44,808	\$ 3,955	\$ 31,994	\$ 3,944
Securities purchased under agreements to resell transactions <sup>1</sup>	25,740	25,375	17,185	16,627
Customer margin assets	35,353	10,554	34,156	11,189
	\$ 105,901	\$ 39,884	\$ 83,335	\$ 31,760

(1) As of September 30, 2020, \$24.3 billion or 96% (as of December 31, 2019, \$14.0 billion or 84%) of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. As of September 30, 2020 and December 31, 2019, the majority of the Company's U.S. and foreign government securities owned were pledged to clearing organizations.

The table below presents financial instruments owned and pledged as collateral, including amounts pledged to affiliates, where the counterparty has the right to repledge, for the periods indicated.

	September 30, 2020	December 31, 2019
		(in millions)
Stocks	\$ 19	\$ 128
U.S. and foreign government securities	28	33
	\$ 47	\$ 161

**8. Revenues from Contracts with Customers**

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised services to the customers. A service is transferred to a customer when, or as, the customer obtains control of that service. A performance obligation may be satisfied at a point in time or over time. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised service. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration, if any.

The Company's revenues from contracts with customers are recognized when the performance obligations are satisfied at an amount that reflects the consideration expected to be received in exchange for such services. The majority of the Company's performance obligations are satisfied at a point in time and are typically collected from customers by debiting their brokerage account with the Company.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***Nature of Services***

The Company's main sources of revenues from contracts with customers are as follows:

- *Commissions* are charged to customers for order execution services and trade clearing and settlement services. These services represent a single performance obligation as the services are not separately identifiable in the context of the contract. The Company recognizes revenue at a point in time at the execution of the order (i.e., trade date). Commissions are generally collected from cleared customers on trade date and from non-cleared customers monthly. Commissions also include payments for order flow received from IBKR Lite<sup>SM</sup> liquidity providers.
- *Market data fees* are charged to customers for market data services to which they subscribe that the Company delivers. The Company recognizes revenue monthly as the performance obligation is satisfied over time by continually providing market data for the period. Market data fees are collected monthly, generally in advance.
- *Risk exposure fees* are charged to customers who carry positions with market risk that exceeds defined thresholds. The Company recognizes revenue daily as the performance obligation is satisfied at a point in time by the Company taking on additional risk of account liquidation and potential losses due to insufficient margin. Risk exposure fees are collected daily.
- *Payments for order flow* are earned from various options exchanges based upon options trading volume originated by the Company that meets certain criteria. The Company recognizes revenue daily as the performance obligation is satisfied at a point in time on customer orders that qualify for payments subject to exchange-mandated programs. Payments for order flow are collected monthly, in arrears.
- *Minimum activity fees* are charged to customers that do not generate the required minimum monthly commission. The Company recognizes revenue monthly as the performance obligation is satisfied at a point in time by servicing customer accounts that do not generate the required minimum monthly commissions. Minimum activity fees are collected monthly, in arrears.

The Company also earns revenues from other services, including order cancellation or modification fees, position transfer fees, telecommunications fees, withdrawal fees, and bank sweep program fees, among others.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

***Disaggregation of Revenue***

The tables below present revenue from contracts with customers by geographic location, and major types of services for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions)			
<u>Geographic location</u> <sup>1</sup>				
United States	\$ 202	\$ 158	\$ 599	\$ 460
International	122	64	348	183
	\$ 324	\$ 222	\$ 947	\$ 643
<u>Major types of services</u>				
Commissions	\$ 279	\$ 187	\$ 824	\$ 538
Market data fees <sup>2</sup>	16	11	44	34
Risk exposure fees <sup>2</sup>	3	4	8	13
Payments for order flow <sup>2</sup>	6	5	20	16
Minimum activity fees <sup>2</sup>	7	7	20	20
Other <sup>2</sup>	13	8	31	22
	\$ 324	\$ 222	\$ 947	\$ 643

(1) Based on the location of the subsidiaries in which the revenues are recorded.

(2) Included in other fees and services in the condensed consolidated statements of comprehensive income.

***Receivables and Contract Balances***

Receivables arise when the Company has an unconditional right to receive payment under a contract with a customer and are derecognized when the cash is received. Receivables of \$11 million and \$10 million, as of September 30, 2020 and December 31, 2019, respectively, are reported in other assets in the condensed consolidated statements of financial condition.

Contract assets arise when the revenue associated with the contract is recognized prior to the Company's unconditional right to receive payment under a contract with a customer (i.e., unbilled receivable) and are derecognized when either it becomes a receivable or the cash is received. Contract assets are reported in other assets in the condensed consolidated statements of financial condition. As of September 30, 2020 and December 31, 2019, contract asset balances were not material.

Contract liabilities arise when customers remit contractual cash payments in advance of the Company satisfying its performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized either when a milestone is met triggering the contractual right to bill the customer or when the performance obligation is satisfied. Contract liabilities are reported in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. As of September 30, 2020 and December 31, 2019, contract liability balances were not material.



**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

## 9. Other Income

The table below presents the components of other income for the periods indicated.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
Principal transactions	\$ 14	\$ —	\$ 36	\$ 69
Gains (losses) from currency diversification strategy, net	27	(47)	(6)	(72)
Other, net	(12)	—	(5)	1
	<u>\$ 29</u>	<u>\$ (47)</u>	<u>\$ 25</u>	<u>\$ (2)</u>

Principal transactions include (1) trading gains and losses from the Company's remaining market making activities; (2) realized and unrealized gains and losses on financial instruments that (a) are held for purposes other than the Company's market making activities, (b) are subject to restrictions, or (c) are accounted for under the equity method; and (3) dividends on investments accounted at cost less impairment.

## 10. Employee Incentive Plans

### *Defined Contribution Plan*

The Company offers substantially all employees of U.S.-based operating subsidiaries who have met minimum service requirements the opportunity to participate in defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. The general purpose of this plan is to provide employees with an incentive to make regular savings in order to provide additional financial security during retirement. This plan provides for the Company to match 50% of the employees' pre-tax contribution, up to a maximum of 10% of eligible earnings. The employee is vested in the matching contribution incrementally over six years of service. Included in employee compensation and benefits expenses in the condensed consolidated statements of comprehensive income was \$3 million of plan contributions for each of the nine months ended September 30, 2020 and 2019.

### *2007 Stock Incentive Plan*

Under the Company's Stock Incentive Plan, up to 30 million shares of the Company's Class A common stock may be issued to satisfy vested restricted stock units granted to directors, officers, employees, contractors and consultants of the Company. The purpose of the Stock Incentive Plan is to promote the Company's long-term financial success by attracting, retaining and rewarding eligible participants.

As a result of the Company's organizational structure, a description of which can be found in "Business – Our Organizational Structure" in Part I, Item 1 of the Company's Annual Report on Form 10-K, there is no material dilutive effect upon ownership of common stockholders of issuing shares under the Stock Incentive Plan. The issuances do not dilute the book value of the ownership of common stockholders since the restricted stock units are granted at market value, and upon their vesting and the related issuance of shares of common stock, the ownership of IBG, Inc. in IBG LLC, increases proportionately to the shares issued. As a result of such proportionate increase in share ownership, the dilution upon issuance of common stock is borne by IBG LLC's majority member (i.e., noncontrolling interest), Holdings, and not by IBG, Inc. or its common stockholders. Additionally, dilution of earnings that may take place after issuance of common stock is reflected in EPS reported in the Company's financial statements. The EPS dilution can be neither estimated nor projected, but historically it has not been material.

The Stock Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has discretionary authority to determine the eligibility to participate in the Stock Incentive Plan and establishes the terms and conditions of the awards, including the number of awards granted to each participant and all other terms and conditions applicable to such awards in individual grant agreements. Awards are expected to be made primarily through grants of restricted stock units. Stock Incentive Plan awards are subject to issuance over time. All previously granted but not yet earned awards may be cancelled by the Company upon the participant's termination of employment or violation of certain applicable covenants prior to issuance, unless determined otherwise by the Compensation Committee.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

The Company expects to continue to grant awards on or about December 31 of each year to eligible participants as part of an overall plan of equity compensation. Restricted stock units vest and become distributable to participants in accordance with the following schedule:

- 10% on the first vesting date, which is on or about May 9 of each year; and
- an additional 15% on each of the following six anniversaries of the first vesting, assuming continued employment with the Company and compliance with non-competition and other applicable covenants.

Awards granted to external directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. A total of 27,245 restricted stock units have been granted to the external directors cumulatively since the plan's inception.

The table below presents Stock Incentive Plan awards granted and the related fair values since the plan's inception.

	Units	Fair Value at Date of Grant (\$ millions)
Prior periods (since inception)	23,551,137	\$ 504
December 31, 2017	946,489	57
December 31, 2018	1,146,267	62
December 31, 2019	1,374,217 <sup>1</sup>	65
	<u>27,018,110</u>	<u>\$ 688</u>

(1) Stock Incentive Plan number of granted restricted stock units related to 2019 was adjusted by 343 additional restricted stock units during the nine months ended September 30, 2020.

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year (see Note 2). In accordance with the vesting schedule, outstanding awards vest and are distributed to participants yearly on or about May 9 of each year. At the end of each year, no vested awards remain undistributed.

Compensation expense related to the Stock Incentive Plan recognized in the condensed consolidated statements of comprehensive income was \$46 million and \$43 million for the nine months ended September 30, 2020 and 2019, respectively. Estimated future compensation costs for unvested awards, net of credits for cancelled awards, as of September 30, 2020 are \$27 million.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The table below summarizes the Stock Incentive Plan activity for the periods indicated.

	Stock Incentive Plan Units
Balance, December 31, 2019 <sup>1</sup>	5,127,915
Granted	—
Cancelled	(72,439)
Distributed	(1,298,027)
Balance, September 30, 2020	3,757,449

(1) Stock Incentive Plan number of granted restricted stock units related to 2019 was adjusted by 343 additional restricted stock units during the nine months ended September 30, 2020.

Awards previously granted but not yet earned under the stock plans are subject to the plans' post-employment provisions in the event a participant ceases employment with the Company. Through September 30, 2020, a total of 1,066,736 restricted stock units have been distributed under these post-employment provisions. These distributions are included in the table above.

## 11. Income Taxes

Income tax expense for the nine months ended September 30, 2020 and 2019 differs from the U.S. federal statutory rate primarily due to the taxation treatment of income attributable to noncontrolling interests in IBG LLC. These noncontrolling interests are held directly through a U.S. partnership. Accordingly, the income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is generally the obligation of the noncontrolling interests. Income tax expense is also affected by the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation.

Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the common stock offerings (see Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for accounting and income tax return purposes.

As of and for the nine months ended September 30, 2020 and 2019, the Company had no valuation allowances on deferred tax assets.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. As of September 30, 2020, the Company is no longer subject to U.S. Federal and State income tax examinations for tax years prior to 2015, and to non-U.S. income tax examinations for tax years prior to 2009.

As of September 30, 2020, accumulated earnings held by non-U.S. subsidiaries totaled \$1.4 billion (as of December 31, 2019 \$1.3 billion). Of this amount, approximately \$0.1 billion (as of December 31, 2019 \$0.2 billion) is attributable to earnings of the Company's foreign subsidiaries that are considered "pass-through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings, approximately \$0.1 billion and \$0.2 billion as of September 30, 2020 and December 31, 2019, respectively, would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution upon repatriation. The Company has not provided for its proportionate share of additional foreign taxes or deferred U.S. tax on cumulative translation adjustments associated with certain foreign pass-through entities as it does not intend to repatriate these earnings in the foreseeable future.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

## 12. Leases

All of the Company's leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities. As of September 30, 2020, the weighted-average remaining lease term on these leases is approximately 8 years and the weighted-average discount rate used to measure the lease liabilities is approximately 4.17%. For the nine months ended September 30, 2020, right-of-use assets obtained under new operating leases were \$3 million. The Company's lease agreements do not contain any residual value guarantees, restrictions or covenants.

The table below presents balances reported in the unaudited condensed consolidated statements of financial condition related to the Company's leases for the period indicated.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(in millions)	
Right-of-use assets <sup>1</sup>	\$ 107	\$ 118
Lease liabilities <sup>1</sup>	\$ 116	\$ 124

(1) Right-of-use assets are included in other assets and lease liabilities are included in accounts payable, accrued expenses and other liabilities in the Company's unaudited condensed consolidated statements of financial condition.

The table below presents balances reported in the unaudited condensed consolidated statements of comprehensive income related to the Company's leases for the period indicated.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
Operating lease cost	\$ 7	\$ 7	\$ 19	\$ 19
Variable lease cost	1	1	3	3
Total lease cost	<u>\$ 8</u>	<u>\$ 8</u>	<u>\$ 22</u>	<u>\$ 22</u>

The tables below reconcile the undiscounted cash flows of the Company's leases to the present value of its operating lease payments for the periods indicated.

	<u>September 30, 2020</u>
	(in millions)
2020 (remaining)	\$ 5
2021	18
2022	17
2023	15
2024	14
2025	14
Thereafter	56
Total undiscounted operating lease payments	139
Less: imputed interest	(23)
Present value of operating lease liabilities	<u>\$ 116</u>

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

### **13. Commitments, Contingencies and Guarantees**

#### *Claims Against Customers*

Over an extended period in 2018, a small number of the Company's customers had taken relatively large positions in a security listed on a major U.S. exchange. The Company extended margin loans against the security at a conservatively high collateral requirement. In December 2018, within a very short timeframe, this security lost a substantial amount of its value. During the quarter ended March 31, 2019, subsequent price declines in the stock have caused these accounts to fall into deficits, despite the Company's efforts to liquidate the customers' positions. As of September 30, 2020, the Company has recognized an aggregate loss of approximately \$42 million. The maximum aggregate loss, which would occur if the security's price fell to zero and none of the debts were collected, would be approximately \$50 million. The Company continues to evaluate pursuing the collection of the debts, although debt collection efforts are inherently difficult and uncertain. The ultimate effect of this incident on the Company's results will depend upon market conditions and the outcome of the Company's debt collection efforts.

#### *Legal, Regulatory and Governmental Matters*

The Company is subject to certain pending and threatened legal, regulatory and governmental actions and proceedings that arise out of the normal course of business. Given the inherent difficulty of predicting the outcome of such matters, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages, the Company is generally not able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of their final resolution or the ultimate settlement. Management believes that the resolution of these matters will not have a material effect, if any, on the Company's business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, "Contingencies." As of September 30, 2020 and 2019, accruals for potential losses related to legal, regulatory and governmental actions, and proceedings matters were not material.

#### *Trading Technologies Matter*

On February 3, 2010, Trading Technologies International, Inc. ("Trading Technologies") filed a complaint in the U.S. District Court for the Northern District of Illinois, Eastern Division, against IBG LLC and IB LLC ("Defendants"). The complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief. The Defendants filed an answer to Trading Technologies' amended complaint, as well as related counterclaims. The Defendants deny Trading Technologies' claims, assert that the asserted patents are not infringed and are invalid, and assert several other defenses as well.

The asserted patents were the subject of petitions before the United States Patent and Trademark Office ("USPTO") seeking Covered Business Method Review ("CBM Review"). The USPTO Patent Trial Appeal Board ("PTAB") found all claims of ten of the twelve asserted patents to be invalid. Of the remaining two patents, 53 of the 56 claims of one patent were held invalid and the other patent survived CBM Review proceedings. Appeals were filed by either Defendants or Trading Technologies on all PTAB determinations.

The United States Court of Appeals for the Federal Circuit vacated the CBM Review determinations of invalidity for four patents, concluding that these patents were not eligible for CBM Review. The District Court trial with respect to these four patents is scheduled for April 2021.

While it is difficult to predict the outcome of the matter, the Company believes it has meritorious defenses to the allegations made in the complaint and intends to defend itself vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the litigation can be settled on favorable terms.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

*Class Action Matter*

On December 18, 2015, a former individual customer filed a purported class action complaint against IB LLC, IBG, Inc., and Thomas Frank, PhD, the Company's Executive Vice President and Chief Information Officer, in the U.S. District Court for the District of Connecticut. The complaint alleges that the purported class of IB LLC's customers were harmed by alleged "flaws" in the computerized system used to close out (i.e., liquidate) positions in customer brokerage accounts that have margin deficiencies. The complaint seeks, among other things, undefined compensatory damages and declaratory and injunctive relief.

On September 28, 2016, the District Court issued an order granting the Company's motion to dismiss the complaint in its entirety, and without providing plaintiff leave to amend. On September 28, 2017, plaintiff appealed to the United States Court of Appeals for the Second Circuit. On September 26, 2018, the Court of Appeals affirmed the dismissal of plaintiff's claims of breach of contract and commercially unreasonable liquidation but vacated and remanded back to the District Court plaintiff's claims for negligence. On November 30, 2018, the plaintiff filed a second amended complaint. The Company filed a motion to dismiss the new complaint on January 15, 2019, which was denied on September 30, 2019. On December 9, 2019, the Company filed a motion requesting that the District Court certify to the Connecticut Supreme Court two questions of Connecticut law directly relevant to the motion to dismiss. The Court denied the Company's motion to certify on May 15, 2020. Currently, Plaintiff's motion for class certification is due on February 17, 2021. Regardless of the outcome of this motion, the Company does not believe that a purported class action is appropriate given the great differences in portfolios, markets and many other circumstances surrounding the liquidation of any particular customer's margin-deficient account. IB LLC and the related defendants intend to continue to defend themselves vigorously against the case and, consistent with past practice in connection with this type of unwarranted action, any potential claims for counsel fees and expenses incurred in defending the case may be fully pursued against the plaintiff.

*Regulatory Matters*

The Company is subject to regulatory oversight and examination by numerous governmental and self-regulatory authorities. As announced on August 10, 2020, we agreed to settle certain matters related to our historical anti-money laundering and Bank Secrecy Act practices and procedures with FINRA, the SEC and the CFTC. As part of the settlements, we agreed to pay penalties of \$15 million to FINRA, \$11.5 million to the SEC and \$11.5 million to the CFTC, plus approximately \$700,000 in disgorgement. In addition, we agreed to continue the retention of an independent consultant to review the implementation of our enhanced compliance practices and procedures. We are also cooperating with a United States Department of Justice inquiry concerning these matters, and while its outcome cannot be predicted, we do not believe that the resolution of this inquiry is likely to have a materially adverse effect on our financial results.

*West Texas Intermediate Crude Oil Event*

On April 20, 2020 the energy markets exhibited extraordinary price activity in the New York Mercantile Exchange ("NYMEX") West Texas Intermediate Crude Oil contract. The price of the May 2020 physically-settled futures contract dropped to an unprecedented negative price of \$37.63. This price was the basis for determining the settlement price for cash-settled futures contracts traded on the CME Globex and also for a separate, expiring cash-settled futures contract listed on the Intercontinental Exchange Europe ("ICE Europe"). Several of the Company's customers held long positions in these CME and ICE Europe futures contracts, and as a result they incurred losses, including losses in excess of the equity in their accounts. The Company fulfilled the required variation margin settlements with the respective clearinghouses on behalf of its customers. While the Company originally recognized an aggregate provisional loss of approximately \$88 million, the Company has since determined to compensate certain affected customers in connection with their losses resulting from the futures contracts settling at a price below zero. As a result, the Company recognized an aggregate loss of approximately \$104 million.

*Guarantees*

Certain of the operating subsidiaries provide guarantees to securities and commodities clearing houses and exchanges which meet the accounting definition of a guarantee under FASB ASC Topic 460, "Guarantees." Under standard membership agreements, clearing house and exchange members are required to guarantee collectively the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations, other members would be required to meet shortfalls. In the opinion of management, the operating subsidiaries' liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for these operating subsidiaries to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the condensed consolidated statements of financial condition for these arrangements.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

In connection with its retail brokerage business, IB LLC or other electronic brokerage operating subsidiaries perform securities and commodities execution, clearance and settlement on behalf of their customers for whom they commit to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the respective operating subsidiary must fulfill those settlement obligations. No contingent liability is carried on the condensed consolidated statements of financial condition for such customer obligations.

**Other Commitments**

Certain clearing houses, clearing banks and firms used by certain operating subsidiaries are given a security interest in certain assets of those operating subsidiaries held by those clearing organizations. These assets may be applied to satisfy the obligations of those operating subsidiaries to the respective clearing organizations.

**14. Geographic Information**

The Company operates its automated global business in the U.S. and international markets on more than 135 electronic exchanges and market centers. A significant portion of the Company's net revenues is generated by subsidiaries operating outside the U.S. International operations are conducted in 32 countries in Europe, Asia/Pacific and the Americas (outside the U.S.). The following table presents total net revenues and income before income taxes by geographic area for the periods indicated.

Significant transactions and balances between the operating subsidiaries occur, primarily as a result of certain operating subsidiaries holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to subsidiaries. Intra-region income and expenses and related balances have been eliminated in this geographic information to reflect the external business conducted in each geographic region. The geographic analysis presented below is based on the location of the subsidiaries in which the transactions are recorded. This geographic information does not reflect the way the Company's business is managed.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
<b>Net revenues</b>				
United States	\$ 390	\$ 346	\$ 1,153	\$ 1,117
International	158	120	466	320
Total net revenues	<u>\$ 548</u>	<u>\$ 466</u>	<u>\$ 1,619</u>	<u>\$ 1,437</u>
<b>Income before income taxes</b>				
United States	\$ 278	\$ 222	\$ 696	\$ 717
International	56	59	168	128
Total income before income taxes	<u>\$ 334</u>	<u>\$ 281</u>	<u>\$ 864</u>	<u>\$ 845</u>

**15. Regulatory Requirements**

As of September 30, 2020, aggregate excess regulatory capital for all of the operating subsidiaries was \$5.9 billion.

IB LLC, TH LLC and IB Corp are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, IB LLC is also subject to the CFTC's minimum financial requirements (Regulation 1.17), and IBKRFS is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. IBC is subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the United Kingdom Financial Conduct Authority Capital Requirements Directive, IBLUX is subject to the Luxembourg Commission de Surveillance du Secteur Financier financial resources requirement, IBHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, IBI is subject to the National Stock Exchange of India net capital requirements, IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements, IBSG is subject to the Monetary Authority of Singapore capital requirements, and IBA is subject to the Australian Securities Exchange liquid capital requirement.

**Interactive Brokers Group, Inc. and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

The table below summarizes capital, capital requirements and excess regulatory capital as of September 30, 2020.

	<u>Net Capital/ Eligible Equity</u>	<u>Requirement</u>	<u>Excess</u>
	(in millions)		
IB LLC	\$ 4,621	\$ 520	\$ 4,101
IBKRFS	593	21	572
IBHK	632	225	407
Other regulated operating subsidiaries	896	56	840
	<u>\$ 6,742</u>	<u>\$ 822</u>	<u>\$ 5,920</u>

Regulatory capital requirements could restrict the operating subsidiaries from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. Also, certain operating subsidiaries are subject to other regulatory restrictions and requirements.

As of September 30, 2020, all of the regulated operating subsidiaries were in compliance with their respective regulatory capital requirements.

#### **16. Related Party Transactions**

Receivable from affiliate, reported in other assets in the condensed consolidated statement of financial condition, represents amounts advanced to Holdings and payable to affiliate represents amounts payable to Holdings under the Tax Receivable Agreement (see Note 4).

Included in receivables from and payables to customers in the condensed consolidated statements of financial condition as of September 30, 2020 and December 31, 2019 were accounts receivable from directors, officers and their affiliates of \$231 million and \$23 million, respectively, and payables of \$1,002 million and \$939 million, respectively. The Company may extend credit to these related parties in connection with margin and securities loans. Such loans are (i) made in the ordinary course of business, (ii) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the company, and (iii) do not involve more than the normal risk of collectability or present other unfavorable features.

#### **17. Subsequent Events**

The Company has evaluated subsequent events for adjustment to or disclosure in its condensed consolidated financial statements through the date the condensed consolidated financial statements were issued.

Except as disclosed above and in Note 4 and Note 13, no other recordable or disclosable events occurred.

\*\*\*\*\*



## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading “Risk Factors” in our Annual Report on Form 10-K filed with the Securities Exchange Commission (“SEC”) on February 28, 2020 and elsewhere in this report.

As previously disclosed in our 10-Q for the quarter ended March 31, 2017 and in subsequent filings, we intended to eliminate the reporting of separate operating business segments upon our determination that the continued wind-down of our market making activity rendered it no longer reportable as a business segment. Pursuant to the requirements of Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) Topic 280, “Segment Reporting,” we performed a quantitative and a qualitative assessment of our business and determined that our remaining market making activity no longer supports our reporting of separate business segments. Accordingly, effective the first quarter of 2020, we discontinued the reporting of separate business segments. Since our decision to wind down our market making activities, management has continued to shift its focus to growing and strengthening our electronic brokerage business. We believe the elimination of segment reporting aligns our financial reporting with our business strategy and management’s focus on the electronic brokerage business. The remaining market making activity is now reported as a component of “principal transactions,” which is included in other income in the consolidated statements of comprehensive income.

Effective the first quarter of 2020, we also changed the presentation of our consolidated statements of comprehensive income to better align with our business strategy. Previously reported amounts have been adjusted to conform with the new presentation. See “Condensed Consolidated Statements of Comprehensive Income and Operating Business Segment Presentation Changes” in Note 2 – “Significant Accounting Policies” to the unaudited condensed consolidated financial statements in Part I, Item 1 of this quarterly report on Form 10-Q.

When we use the terms “we,” “us,” and “our,” we mean IBG, Inc. and its subsidiaries for the periods presented.

### Introduction

Interactive Brokers Group, Inc. (the “Company” or “IBG, Inc.”) is a holding company whose primary asset is its ownership of approximately 19.0% of the membership interests of IBG LLC. The remaining approximately 81.0% of IBG LLC membership interests are held by IBG Holdings LLC (“Holdings”), a holding company that is owned by our founder and Chairman, Mr. Thomas Peterffy and his affiliates, management and other employees of IBG LLC, and certain other members. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of September 30, 2020.

	<u>IBG, Inc.</u>	<u>Holdings</u>	<u>Total</u>
Ownership %	19.0%	81.0%	100.0%
Membership interests	79,057,622	337,670,642	416,728,264

We are an automated global electronic broker. We custody and service accounts for hedge and mutual funds, registered investment advisers, proprietary trading groups, introducing brokers and individual investors. We specialize in routing orders and executing and processing trades in stocks, options, futures, forex, bonds, mutual funds and ETFs on more than 135 electronic exchanges and market centers around the world.

Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. We integrate our software with an increasing number of exchanges and market centers to provide one automatically functioning, computerized platform that requires little human intervention.

Capitalizing on our proprietary technology, our systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. The proliferation of market centers has provided us with the opportunity to build and continually adapt our order routing software to secure excellent execution prices.

Interactive Brokers believes in delivering the broadest product and service offerings possible to provide its customers opportunities in markets around the globe. We offer our customers access to all classes of tradable, primarily exchange-listed products, including stocks, options, futures, forex, bonds, mutual funds and ETFs traded on more than 135 electronic exchanges and market centers in 33 countries and in 25 currencies.

Because our strategy emphasizes global access to a broad range of offerings, our customer base is diverse with respect to geography and segments. Specialized products and services that we have developed successfully attract these accounts. For example, we offer prime brokerage services, including financing and securities lending, to hedge funds; our model portfolio technology and automated share allocation and rebalancing tools are particularly attractive to financial advisors; and our trading platform, global access and low pricing attract introducing brokers.

Currently, approximately 75% of our customers reside outside the U.S. in over 200 countries and territories, and over 50% of new customers come from outside the U.S. Approximately 64% of our customers' equity is in institutional accounts such as hedge funds, financial advisors, proprietary trading desks and introducing brokers.

## **COVID-19 Pandemic**

In March 2020, the World Health Organization recognized the outbreak of the Coronavirus Disease 2019 ("COVID-19") caused by a novel strain of the coronavirus as a pandemic. The pandemic affects all countries in which we operate. The response of governments and societies to the COVID-19 pandemic, which includes temporary closures of certain businesses; social distancing; travel restrictions, "shelter in place" and other governmental regulations; and reduced consumer spending due to job losses, has significantly impacted market volatility and general economic conditions.

The COVID-19 pandemic has precipitated unprecedented market conditions with equally unprecedented social and community challenges. Amid these challenges:

- The Company is committed to ensuring the highest levels of service to its customers so they can effectively manage their assets, portfolios and risks. The Company's technical infrastructure has withstood the challenges presented by the extraordinary volatility and increased market volume.
- The Company can run its business from alternate office locations and/or remotely if a Company office must temporarily close due to the spread of the COVID-19 pandemic.
- As announced on April 9, 2020, during the second quarter of 2020 the Company donated \$5 million to assist efforts to provide food and support for people affected by the COVID-19 pandemic in the United States as well as to advance medical solutions.

The effects of the COVID-19 pandemic on the Company's financial results for the third quarter of 2020 can be summarized as follows: (1) higher commission revenue due to increased trading activity and a higher rate of customer accounts opened during this period; and (2) lower net interest income resulting from lower benchmark interest rates.

The impact of the COVID-19 pandemic on the Company's future financial results could be significant but currently cannot be quantified, as it will depend on numerous evolving factors that currently cannot be accurately predicted, including, but not limited to, the duration and spread of the pandemic; its impact on our customers, employees and vendors; governmental actions in response to the pandemic; and the overall impact of the pandemic in the economy and society; among other factors. Any of these events could have a materially adverse effect on the Company's financial results.

## **Business Environment**

During the quarter ended September 30, 2020 ("current quarter"), U.S. market volatility, as measured by the average Chicago Board Options Exchange Volatility Index ("VIX<sup>®</sup>"), rose over 60% from the quarter ended September 30, 2019 ("prior year quarter"). The average VIX<sup>®</sup> was 25.9 and ranged from a peak of 34 to a low of 21 as the markets assimilated the possible range of long- and short-term impacts of the COVID-19 pandemic. Similarly, during the prior year quarter, the VIX<sup>®</sup> moved in a range of 12 to 25, reflecting a generally stable outlook. However, the higher overall average VIX<sup>®</sup> in the current quarter corresponded with significantly higher trading activity. Equity market indices around the globe were mixed in the current quarter, with the S&P 500 Index increasing 13% over the prior year quarter, but most European and Asia/Pacific markets declining.

Among our customer base, volatility is highly correlated with customer trading activity across product types. In the current quarter, consistently higher volatility led to strong increases in trading volume worldwide. Customer options, futures and stock volumes were up 65%, 9% and 109%, respectively, and foreign exchange dollar volumes were up 31%, compared to the prior year quarter.

The Federal Reserve maintained its benchmark target rate near zero since cutting the rate twice in March of this year for a total of three reductions since the year ago quarter end. U.S. rates also continue to exhibit a relatively flat yield curve, which limits our opportunities to earn more net interest income on interest-sensitive assets. Benchmark rates in many other countries are also zero, and in some cases negative. This has served to reduce our net interest income versus the prior year quarter.

Active markets as well as stay-at-home conditions brought on by the COVID-19 pandemic continue to encourage people around the world to use their available time productively by participating in the markets and opening brokerage accounts. Our total customer accounts increased 47% from the prior year quarter to 981 thousand. The rise was driven by growth in all segments and regions, and a particularly large increase in individual accounts worldwide. Customer equity increased 49% to \$232.7 billion as solid inflows from both new and existing customers continued, against a backdrop of mixed markets globally. Institutional customers, such as hedge funds, mutual funds, introducing brokers, proprietary trading groups and financial advisors, comprised approximately 44% of total accounts as of September 30, 2020, versus 50% in the prior year quarter. Strong growth in our individual segment accounts, which were up 65%, and slower, though still positive, growth in our institutional segments accounted for this difference. Customers continue to seek our superior technology, execution capabilities, and our ability to offer a broad range of products and global market access.

The following is a summary of the key profit drivers that affect our business and how they compared to the prior year quarter:

*Global trading volumes.* According to industry data, average daily volumes in U.S. exchange-listed equity-based options increased by 49%, and in U.S. listed cash equities by 44%, while U.S. futures decreased by 23%, compared to the prior year quarter. As noted above, there was a significant increase in most trading activity with consistently high volatility throughout the quarter, compared to the prior year quarter, which boosted industry and Company transaction revenues. Note that while options, futures and U.S. cash equities volumes represent most of our volumes and are readily comparable measures, they reflect only a portion of the global volumes that generate our commission revenue. See “Trading Volumes and Customer Statistics” below in this Item 2 for additional details regarding our trade volumes, contract and share volumes, and customer statistics.

*Volatility.* Average U.S. market volatility, as measured by the VIX<sup>®</sup>, increased 62% to 25.9 in the current quarter, from 15.9 in the prior year quarter. Higher volatility improves our performance because it generally corresponds to higher trading volumes. In the current quarter, which sustained much of the higher volatility seen in the first and second quarters, industry trading activity continued to rise in most categories, while our customer trading activity rose across all products.

*Interest Rates.* The U.S. Federal Reserve’s target federal funds rate range in the current quarter remained at zero to 0.25%, similar to rates in many other currencies, with the exception of those where rates are negative. Low benchmark rates can lead to lower net interest income and a narrower net interest margin. As our margin balances are tied to benchmark rates, with a minimum charge of 0.75% in U.S. dollars, low interest rates limit the interest we receive on our customer margin balances. Low rates also reduce the interest we earn on our segregated cash, the majority of which is invested in U.S. government securities and related instruments, as higher-yielding investments mature and are reinvested at current lower rates. As an offset, lower rates also reduce our interest expense, as, for example in U.S. dollars, we pay interest to customers only when the federal funds effective rate is above 0.50%. Currently, in currencies with negative rates, we collect interest on a portion of customer cash balances. We continue to offer among the lowest rates on our margin lending. We believe our low rates on margin borrowing are an important factor that attracts customers to our platform.

While the interest we pay on customer cash balances, and the interest we earn on customer margin loans, is based on fixed spreads around benchmark rates (or, in the case of customer margin loans currently, a fixed minimum), we earn interest on rising balances. And, in a normalized rate environment, additional net interest income is earned on low- or non-interest-bearing customer balances, e.g., on securities accounts with less than \$100,000 in equity. Net interest income decreased compared to the prior year quarter as the average federal funds effective rate decreased to 0.09% from 2.19% in the prior year quarter, despite the fact that average margin loan balances increased 9% compared to the prior year quarter, as customers continued to show renewed appetite for leverage. Average customer credit balances rose 28% over the prior year quarter, driven by a strong inflow of new accounts worldwide, sustaining a historical trend whereby growth in our clients’ cash has been consistent and over time outpaces the variable growth and contraction in margin loans.

## **Financial Overview**

In the fourth quarter of 2019, we introduced the reporting of non-GAAP financial measures, which exclude certain items that may not be indicative of our core operating results and business outlook and may be useful in evaluating the operating performance of our business and provide a better comparison of our results in the current period to those in prior and future periods. See the “Non-GAAP Financial Measures” section below in this Item 2 for additional details.

Diluted earnings per share were \$0.58 for the current quarter, compared to diluted earnings per share of \$0.45 for the prior year quarter. Adjusted diluted earnings per share were \$0.53 for the current quarter and \$0.57 for the prior year quarter. The calculation of diluted earnings per share is detailed in Note 4 – “Equity and Earnings per Share” to the unaudited condensed consolidated financial statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

For the current quarter, our net revenues were \$548 million and income before income taxes was \$334 million, compared to net revenues of \$466 million and income before income taxes of \$281 million in the prior year quarter. Adjusted net revenues were \$518 million and adjusted income before income taxes was \$304 million, compared to adjusted net revenues of \$525 million and

adjusted income before income taxes of \$340 million in the prior year quarter.

Diluted earnings per share were \$1.58 for the nine months ended September 30, 2020 (“current nine-month period”), compared to \$1.52 for the nine months ended September 30, 2019 (“prior year nine-month period”). Adjusted diluted earnings per share were \$1.79 for the current nine-month period compared to \$1.68 for the prior year nine-month period.

For the current nine-month period, our net revenues were \$1,619 million and income before income taxes was \$864 million, compared to net revenues of \$1,437 million and income before income taxes of \$845 million in the prior year nine-month period. Adjusted net revenues were \$1,622 million and adjusted income before income taxes was \$971 million in the current nine-month period, compared to adjusted net revenues of \$1,481 million and adjusted income before income taxes of \$931 million in the prior year nine-month period.

The financial highlights for the current quarter were:

- Commission revenue showed strong growth, increasing \$92 million, or 49%, from the prior year quarter on higher customer trading volume within an active trading environment worldwide.
- Net interest income decreased \$96 million, or 33%, from the prior year quarter as the average federal funds effective rate, which in part determines the rates we can earn on our interest-earning assets, decreased to 0.09% from 2.19% in the prior year quarter.
- Other income increased \$76 million from the prior year quarter. This increase was mainly comprised of (1) \$74 million related to our currency diversification strategy, which gained \$27 million in the current quarter compared to a loss of \$47 million in the prior year quarter; and (2) \$19 million related to our strategic investment in Up Fintech Holding Limited (“Tiger Brokers”), which swung to a \$6 million mark-to-market gain in the current quarter from a \$13 million mark-to-market loss in the prior year quarter; partially offset by (3) a \$13 million impairment loss on our investment in OneChicago Exchange recognized in the current quarter.
- Pretax profit margin was 61% for the current quarter, up from 60% in the prior year quarter. Adjusted pretax profit margin for the current quarter was 59%, down from 65% in the prior year quarter.
- Total equity at September 30, 2020 was \$8.5 billion.

As a global electronic broker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure by keeping our net worth in proportion to a defined basket of 10 currencies we call the “GLOBAL” to diversify our risk and to align our hedging strategy with the currencies that we use in our business. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL versus the U.S. dollar affects our earnings. In connection with our currency diversification strategy as of September 30, 2020, approximately 26% of our equity was denominated in currencies other than the U.S. dollar. In the current quarter, our currency diversification strategy increased our comprehensive earnings by \$72 million (compared to a decrease of \$75 million in the prior year quarter), as the U.S. dollar value of the GLOBAL increased by approximately 0.91%, compared to its value as of June 30, 2020. The effects of our currency diversification strategy are reported as (1) a component of other income (gain of \$27 million) in the consolidated statement of comprehensive income and (2) other comprehensive income (“OCI”) (gain of \$45 million) in the consolidated statement of financial condition and the consolidated statement of comprehensive income. The full effect of the GLOBAL is captured in comprehensive income.

#### *West Texas Intermediate Crude Oil Event*

On April 20, 2020 the energy markets exhibited extraordinary price activity in the New York Mercantile Exchange (“NYMEX”) West Texas Intermediate Crude Oil futures contract. The price of the May 2020 physically-settled futures contract dropped to an unprecedented negative price of \$37.63. This price was the basis for determining the settlement price for cash-settled futures contracts traded on the CME Globex and also for a separate, expiring cash-settled futures contract listed on the Intercontinental Exchange Europe (“ICE Europe”). Several of the Company’s customers held long positions in these CME and ICE Europe contracts, and as a result they incurred losses, including losses in excess of the equity in their accounts. The Company fulfilled the required variation margin settlements with the respective clearinghouses on behalf of its customers. The Company subsequently compensated certain affected customers in connection with their losses resulting from the contracts settling at a price below zero. As a result, the Company recognized an aggregate loss of approximately \$104 million.

## **Certain Trends and Uncertainties**

We believe that our current operations may be favorably or unfavorably impacted by the following trends that may affect our financial condition and results of operations:

- The COVID-19 pandemic has precipitated unprecedented market conditions with equally unprecedented social and community challenges. The impact of the COVID-19 pandemic on the Company's future financial results could be significant but currently cannot be quantified, as it will depend on numerous evolving factors that currently cannot be accurately predicted, including, but not limited to the duration and spread of the pandemic; its impact on our customers, employees and vendors; governmental regulations in response to the pandemic; and the overall impact of the pandemic on the economy and society; among other factors.
- Retail participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Retail transaction volumes may not be sustainable and are not predictable.
- Additional consolidation among market centers may adversely affect the value of our IB SmartRouting<sup>SM</sup> software.
- Benchmark interest rates have fluctuated over the past years due to economic conditions. Changes in interest rates may not be predictable.
- Fiscal and/or monetary policy may change and impact the financial services business and securities markets.
- Price competition among broker-dealers may continue to intensify.
- Scrutiny of equity and options market makers, hedge funds and soft dollar practices by regulatory and legislative authorities has increased. New legislation or modifications to existing regulations and rules could occur in the future.
- Our remaining market making activity will continue to be impacted by market structure changes, market conditions, the level of automation of competitors, and the relationship between actual and implied volatility in the equities markets.

See "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K, filed with the SEC on February 28, 2020, and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

## Trading Volumes and Customer Statistics

The following tables present historical trading volumes and customer statistics for our business. Trading volumes are the primary driver of our commission revenue. Information on our net interest income can be found elsewhere in this report.

### TRADE VOLUMES:

(in 000's, except %)

Period	Cleared Customer Trades	% Change	Non-Cleared Customer Trades	% Change	Principal Trades	% Change	Total Trades	% Change	Avg. Trades per U.S. Trading Day
2017	265,501		14,835		31,282		311,618		1,246
2018	328,099	24%	21,880	47%	18,663	(40%)	368,642	18%	1,478
2019	302,289	(8%)	26,346	20%	17,136	(8%)	345,771	(6%)	1,380
3Q2019	78,793		6,566		4,738		90,097		1,419
3Q2020	160,015	103%	14,701	124%	7,453	57%	182,169	102%	2,846
2Q2020	153,212		13,752		7,252		174,216		2,765
3Q2020	160,015	4%	14,701	7%	7,453	3%	182,169	5%	2,846

### CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

#### TOTAL

Period	Options (contracts)	% Change	Futures <sup>(1)</sup> (contracts)	% Change	Stocks (shares)	% Change
2017	395,885		124,123		220,247,921	
2018	408,406	3%	151,762	22%	210,257,186	(5%)
2019	390,739	(4%)	128,770	(15%)	176,752,967	(16%)
3Q2019	103,972		36,124		43,107,364	
3Q2020	163,972	58%	39,186	8%	87,514,614	103%
2Q2020	151,665		43,393		67,637,445	
3Q2020	163,972	8%	39,186	(10%)	87,514,614	29%

#### ALL CUSTOMERS

Period	Options (contracts)	% Change	Futures <sup>(1)</sup> (contracts)	% Change	Stocks (shares)	% Change
2017	293,860		118,427		213,108,299	
2018	358,852	22%	148,485	25%	198,909,375	(7%)
2019	349,287	(3%)	126,363	(15%)	167,826,490	(16%)
3Q2019	93,124		35,427		41,025,047	
3Q2020	153,612	65%	38,685	9%	85,893,357	109%
2Q2020	140,787		42,582		65,818,295	
3Q2020	153,612	9%	38,685	(9%)	85,893,357	31%

(1) Futures contract volume includes options on futures.

## CLEARED CUSTOMERS

Period	Options	%	Futures <sup>(1)</sup>	%	Stocks	%
	(contracts)	Change	(contracts)	Change	(shares)	Change
2017	253,304		116,858		209,435,662	
2018	313,795	24%	146,806	26%	194,012,882	(7%)
2019	302,068	(4%)	125,225	(15%)	163,030,500	(16%)
3Q2019	80,840		35,108		39,891,867	
3Q2020	137,660	70%	38,405	9%	83,246,086	109%
2Q2020	124,010		42,259		62,937,898	
3Q2020	137,660	11%	38,405	(9%)	83,246,086	32%

## PRINCIPAL TRANSACTIONS

Period	Options	%	Futures <sup>(1)</sup>	%	Stocks	%
	(contracts)	Change	(contracts)	Change	(shares)	Change
2017	102,025		5,696		7,139,622	
2018	49,554	(51%)	3,277	(42%)	11,347,811	59%
2019	41,452	(16%)	2,407	(27%)	8,926,477	(21%)
3Q2019	10,848		697		2,082,317	
3Q2020	10,360	(4%)	501	(28%)	1,621,257	(22%)
2Q2020	10,878		811		1,819,150	
3Q2020	10,360	(5%)	501	(38%)	1,621,257	(11%)

(1) Futures contract volume includes options on futures.

## CUSTOMER STATISTICS:

Year over Year	3Q2020	3Q2019	% Change
Total Accounts (in thousands)	981	666	47%
Customer Equity (in billions) <sup>(1)</sup>	\$ 232.7	\$ 156.6	49%
Cleared DARTs (in thousands)	1,629	777	110%
Total Customer DARTs (in thousands)	1,832	859	113%

### Cleared Customers

Commission per Cleared Commissionable Order <sup>(2)</sup>	\$ 2.69	\$ 3.69	(27%)
Cleared Avg. DARTs per Account (Annualized)	442	297	49%
Net Revenue per Avg. Account (Annualized)	\$ 2,154	\$ 2,995	(28%)

### Consecutive Quarters

	3Q2020	2Q2020	% Change
Total Accounts (in thousands)	981	876	12%
Customer Equity (in billions) <sup>(1)</sup>	\$ 232.7	\$ 203.2	15%
Cleared DARTs (in thousands)	1,629	1,558	5%
Total Customer DARTs (in thousands)	1,832	1,746	5%

### Cleared Customers

Commission per Cleared Commissionable Order <sup>(2)</sup>	\$ 2.69	\$ 2.81	(4%)
Cleared Avg. DARTs per Account (Annualized)	442	480	(8%)
Net Revenue per Avg. Account (Annualized)	\$ 2,154	\$ 2,442	(12%)

(1) Excludes non-customers.

(2) Commissionable Order – a customer order that generates commission revenue.

## Results of Operations

The below table presents our consolidated results of operations for the periods indicated. The period-to-period comparisons below of financial results are not necessarily indicative of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in millions, except share and per share amounts)				
<b>Revenues</b>				
Commissions	\$ 279	\$ 187	\$ 824	\$ 538
Other fees and services <sup>1/2</sup>	45	35	123	105
Other income (loss) <sup>1/3</sup>	29	(47)	25	(2)
Total non-interest income	353	175	972	641
Interest income	240	468	853	1,308
Interest expense	(45)	(177)	(206)	(512)
Total net interest income	195	291	647	796
Total net revenues	548	466	1,619	1,437
<b>Non-interest expenses</b>				
Execution, clearing and distribution fees	74	68	227	192
Employee compensation and benefits	77	67	239	213
Occupancy, depreciation and amortization	17	15	51	43
Communications	6	7	19	19
General and administrative	37	30	206	80
Customer bad debt	3	(2)	13	45
Total non-interest expenses	214	185	755	592
Income before income taxes	334	281	864	845
Income tax expense	32	20	65	50
Net income	302	261	799	795
Less net income attributable to noncontrolling interests	256	225	675	678
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
<b>Earnings per share</b>				
Basic	\$ 0.59	\$ 0.46	\$ 1.60	\$ 1.54
Diluted	\$ 0.58	\$ 0.45	\$ 1.58	\$ 1.52
<b>Weighted average common shares outstanding</b>				
Basic	78,509,625	76,742,789	77,543,008	75,910,080
Diluted	79,120,548	77,348,976	78,243,699	76,646,487
<b>Comprehensive income</b>				
Net income available for common stockholders	\$ 46	\$ 36	\$ 124	\$ 117
Other comprehensive income				
Cumulative translation adjustment, before income taxes	8	(6)	5	(3)
Income taxes related to items of other comprehensive income	-	-	-	-
Other comprehensive income (loss), net of tax	8	(6)	5	(3)
Comprehensive income available for common stockholders	\$ 54	\$ 30	\$ 129	\$ 114
<b>Comprehensive income attributable to noncontrolling interests</b>				
Net income attributable to noncontrolling interests	\$ 256	\$ 225	\$ 675	\$ 678
Other comprehensive income - cumulative translation adjustment	37	(22)	24	(11)
Comprehensive income attributable to noncontrolling interests	\$ 293	\$ 203	\$ 699	\$ 667



- (1) In the first quarter of 2020, we changed the presentation of our consolidated statements of income to better align with our business strategy. Previously reported amounts have been adjusted to conform with the new presentation.
- (2) Includes market data fees, account activity fees, risk exposure fees, order flow income from options exchange-mandated programs, and revenues from other fees and services.
- (3) Includes gains (losses) from principal transactions; the impact of our currency diversification strategy; gains (losses) from our equity method investments, and other revenues not directly attributable to our core business offerings.

**Three Months Ended September 30, 2020 (“current quarter”) compared to the Three Months Ended September 30, 2019 (“prior year quarter”)**

*Net Revenues*

Total net revenues, for the current quarter, increased \$82 million, or 18%, compared to the prior year quarter, to \$548 million. The increase in net revenues was due to higher commissions, other income, and other fees and services, partially offset by lower net interest income.

*Commissions*

Commissions, for the current quarter, increased \$92 million, or 49%, compared to the prior year quarter, to \$279 million, driven by higher customer trading volumes in options, futures and stocks. Total customer options and futures contract and stock share volumes increased 65%, 9% and 109%, respectively, compared to the prior year quarter. The increase in customer trading volumes across all product types was in line with the active trading environment worldwide in the current quarter as compared to the prior year quarter. Total DARTs for cleared and execution-only customers, for the current quarter, increased 113% to 1.83 million, compared to 859 thousand for the prior year quarter. DARTs for cleared customers, i.e., customers for whom we execute trades, as well as clear and carry positions, for the current quarter, increased 110% to 1.63 million, compared to 777 thousand for the prior year quarter. Average commission per commissionable order for cleared customers, for the current quarter, decreased 27% to \$2.69, compared to \$3.69 for the prior year quarter, reflecting smaller average order sizes in stocks, options, futures and foreign exchange as well as some effect from higher exchange rebates passed through to our customers. Smaller trade sizes are often seen in high volatility periods, as traders choose to risk less per trade in fast-moving markets.

*Other Fees and Services*

Other fees and services, for the current quarter, increased \$10 million, or 29%, compared to the prior year quarter, to \$45 million, driven by a \$7 million increase in IPO-related fee income, a \$5 million increase in market data fee income, and a \$1 million increase in payments for order flow income from options exchange-mandated programs; partially offset by a \$2 million decrease in FDIC Insured Bank Deposit Sweep Program fee income and a \$1 million decrease in risk exposure fee income.

*Other Income*

Other income, for the current quarter, increased \$76 million, compared to the prior year quarter, to \$29 million. This increase was mainly comprised of (1) \$74 million related to our currency diversification strategy, which gained \$27 million in the current quarter compared to a loss of \$47 million in the prior year quarter; and (2) \$19 million related to our strategic investment in Tiger Brokers, which swung to a \$6 million mark-to-market gain in the current quarter from a \$13 million mark-to-market loss in the prior year quarter; partially offset by (3) a \$13 million impairment loss on our investment in OneChicago Exchange recognized in the current quarter.

A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

*Interest Income and Interest Expense*

Net interest income (interest income less interest expense), for the current quarter, decreased \$96 million, or 33%, compared to the prior year quarter, to \$195 million. The decrease in net interest income was driven by lower benchmark interest rates.

Net interest income on customer balances, for the current quarter, decreased \$86 million, compared to the prior year quarter, driven by a decrease in the average federal funds effective rate to 0.09% from 2.19% in the prior year quarter, partially offset by a \$15.1 billion increase in average customer credit balances, a portion of which was invested in interest-bearing U.S. government securities and a \$2.4 billion increase in average customer margin loans. See the “Business Environment” section above in this Item 2 for a further discussion about the change in interest rates in the current quarter.

We earn income on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow us to lend it out. We pay customers a rebate on the cash collateral generally equal to 50% of the income we earn from lending the shares. We place cash collateral securing the loans in the customer’s account.

In the current quarter, average securities borrowed increased 11%, to \$4.5 billion and average securities loaned increased 38%, to \$5.8 billion, compared to the prior year quarter. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers. During the current quarter, net interest earned from securities lending transactions increased \$9 million, or 12%, compared to the prior year quarter, as we satisfied the demand for more hard-to-borrow securities that investors were looking to sell short. It should be noted that securities lending transactions entered into to support customer activity may produce interest income (expense) that is offset by interest expense (income) related to customer balances.

The Company measures return on interest-earning assets using net interest margin (“NIM”). NIM is computed by dividing the annualized net interest income by the average interest-earning assets for the period. Interest-earning assets consist of cash and securities segregated for regulatory purposes (including U.S. government securities and securities purchased under agreements to resell), customer margin loans, securities borrowed, other interest-earning assets (solely firm assets) and customer cash balances swept into FDIC insured banks as part of our Insured Bank Deposit Sweep Program. Interest-bearing liabilities consist of customer credit balances, securities loaned, and other interest-bearing liabilities.

Yields are generally a reflection of benchmark interest rates in each currency in which the Company and its customers hold cash balances. Because a substantial portion of customer cash and margin loans are denominated in currencies other than the U.S. dollar, changes in U.S. benchmark interest rates do not impact the total amount of segregated cash and securities, customer margin loans and customer credit balances. Furthermore, because interest, when benchmark rates are at higher levels, is paid only on eligible cash credit balances (i.e., balances over \$10 thousand or equivalent, in securities accounts with over \$100 thousand in equity, and in smaller accounts at reduced rates), changes in benchmark interest rates are not passed through to the total amount of customer credit balances. Finally, the Company’s policies with respect to currencies with negative interest rates impact the yields on segregated cash and customer credit balances as effective interest rates in those currencies fluctuate.

Generally, as benchmark interest rates rise, a larger portion of the interest earned on securities lending transactions is reported as net interest income on “Segregated cash and securities, net” instead of “Securities borrowed and loaned, net” because interest earned on cash collateral held in specially designated bank accounts for the benefit of customers, in accordance with the U.S. customer protection rules, increases.

The table below presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the periods indicated.

	Three Months Ended September 30,	
	2020	2019
	(in millions)	
<b>Average interest-earning assets</b>		
Segregated cash and securities	\$ 43,589	\$ 29,443
Customer margin loans	28,490	26,134
Securities borrowed	4,477	4,036
Other interest-earning assets	5,075	5,362
FDIC sweeps <sup>1</sup>	2,982	2,151
	<u>\$ 84,613</u>	<u>\$ 67,126</u>
<b>Average interest-bearing liabilities</b>		
Customer credit balances	\$ 68,867	\$ 53,762
Securities loaned	5,756	4,160
Other interest-bearing liabilities	251	173
	<u>\$ 74,874</u>	<u>\$ 58,095</u>
<b>Net Interest income</b>		
Segregated cash and securities, net	\$ 14	\$ 153
Customer margin loans <sup>2</sup>	83	175
Securities borrowed and loaned, net	86	77
Customer credit balances, net <sup>2</sup>	8	(137)
Other net interest income <sup>1/3</sup>	10	31
Net interest income <sup>3</sup>	<u>\$ 201</u>	<u>\$ 299</u>
<b>Net interest margin ("NIM")</b>	<u>0.94%</u>	<u>1.77%</u>
<b>Annualized Yields</b>		
Segregated cash and securities	0.13%	2.06%
Customer margin loans	1.16%	2.66%
Customer credit balances	-0.05%	1.01%

- (1) Represents the average amount of customer cash swept into FDIC-insured banks as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's condensed consolidated statements of financial condition. Income derived from program deposits is reported in other net interest income in the table above.
- (2) Interest income and interest expense on customer margin loans and customer credit balances, respectively, are calculated on daily cash balances within each customer's account on a net basis, which may result in an offset of balances across multiple account segments (e.g., between securities and commodities segments).
- (3) Includes income from financial instruments that has the same characteristics as interest, but is reported in other fees and services and other income in the Company's condensed consolidated statements of comprehensive income. For the three months ended September 30, 2020 and 2019, \$6 million and \$4 million were reported in other fees and services, respectively, and \$0 million and \$4 million were reported in other income, respectively.

### ***Non-Interest Expenses***

Non-interest expenses, for the current quarter, increased \$29 million, or 16%, compared to the prior year quarter, to \$214 million, mainly due to a \$10 million increase in employee compensation and benefits; a \$7 million increase in general and administrative expenses; a \$6 million increase in execution, clearing and distribution fees; a \$5 million increase in customer bad debt expense; and a \$2 million increase in occupancy expenses; partially offset by a \$1 million decrease in communications expense. As a percentage of total net revenues, non-interest expenses were 39% for the current quarter and 40% for the prior year quarter.

### ***Execution, Clearing and Distribution Fees***

Execution, clearing and distribution fees, for the current quarter, increased \$6 million, or 9%, compared to the prior year quarter, to \$74 million, driven by higher trade volumes, as total customer options and futures contract and stock share volumes increased 65%, 9% and 109%, respectively, compared to the prior year quarter.

#### *Employee Compensation and Benefits*

Employee compensation and benefits expenses, for the current quarter, increased \$10 million, or 15%, compared to the prior year quarter, to \$77 million, associated with a 21% increase in the average number of employees to 1,869 for the current quarter, compared to 1,550 for the prior year quarter. We continued to add staff in customer service, compliance, and software development. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 14% for both the current quarter and the prior year quarter.

#### *Occupancy, Depreciation and Amortization*

Occupancy, depreciation and amortization expenses, for the current quarter, increased \$2 million, or 13%, compared to the prior year quarter, to \$17 million, mainly due to higher costs related to the expansion of our physical space for both offices and data centers. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 3% for both the current quarter and the prior year quarter.

#### *Communications*

Communications expenses, for the current quarter, decreased less than \$1 million compared to the prior year quarter, to \$6 million.

#### *General and Administrative*

General and administrative expenses, for the current quarter, increased \$7 million, or 23%, compared to the prior year quarter, to \$37 million, primarily due to an increase in compliance and advertising related expenses. As a percentage of total net revenues, general and administrative expenses were 7% for the current quarter and 6% for the prior year quarter.

#### *Customer Bad Debt*

Customer bad debt expense, for the current quarter, increased \$5 million, compared to the prior year quarter, to \$3 million, due in part to the non-recurrence of the recovery of previous losses recognized in the prior year quarter.

### Income Tax Expense

Income tax expense, for the current quarter, increased \$12 million, or 60%, compared to the prior year quarter, to \$32 million, due to higher income tax expense outside the United States and a return to provision adjustment of \$5 million recorded in the current quarter.

The table below presents information about our income tax expense for the periods indicated.

	<b>Three Months Ended September</b>	
	<b>2020</b>	<b>2019</b>
<b>(in millions, except %)</b>		
<b>Consolidated</b>		
Consolidated income before income taxes	\$ 334	\$ 281
IBG, Inc. stand-alone income before income taxes	-	-
Operating subsidiaries income before income taxes	<u>\$ 334</u>	<u>\$ 281</u>
<b>Operating subsidiaries</b>		
Income before income taxes	\$ 334	\$ 281
Income tax expense	18	4
Net income available to members	<u>\$ 316</u>	<u>\$ 277</u>
<b>IBG, Inc.</b>		
Average ownership percentage in IBG LLC	18.8%	18.5%
Net income available to IBG, Inc. from operating subsidiaries	\$ 60	\$ 52
IBG, Inc. stand-alone income before income taxes	-	-
Income before income taxes	60	52
Income tax expense	14	16
Net income available to common stockholders	<u>\$ 46</u>	<u>\$ 36</u>
<b>Consolidated income tax expense</b>		
Income tax expense attributable to operating subsidiaries	\$ 18	\$ 4
Income tax expense attributable to IBG, Inc.	14	16
Consolidated income tax expense	<u>\$ 32</u>	<u>\$ 20</u>

### Operating Results

Income before income taxes, for the current quarter, increased \$53 million, or 19%, to \$334 million, compared to the prior year quarter. Pretax profit margin was 61% for the current quarter and 60% for the prior year quarter.

Comparing our operating results for the current quarter to the prior year quarter, excluding the non-GAAP financial measures described below, adjusted net revenues were \$518 million, down 1%; adjusted income before income taxes was \$304 million, down 11%; and adjusted pre-tax profit margin was 59% for the current quarter and 65% for the prior year quarter. See the “Non-GAAP Financial Measures” section below in this Item 2 for additional details.

**Nine Months Ended September 30, 2020 (“current nine-month period”) compared to the Nine Months Ended September 30, 2019 (“prior year nine-month period”)**

***Net Revenues***

Total net revenues, for the current nine-month period, increased \$182 million, or 13%, compared to the prior year nine-month period, to \$1,619 million. The increase in net revenues was due to higher commissions, other income, and other fees and services, partially offset by lower net interest income.

***Commissions***

Commissions, for the current nine-month period, increased \$286 million, or 53%, compared to the prior year nine-month period, to \$824 million, driven by higher customer trading volumes in options, futures and stocks. Total customer options and futures contract and stock share volumes increased 64%, 33% and 63%, respectively, compared to the prior year nine-month period. The increase in customer trading volumes across all product types was in line with higher volatility associated with the COVID-19 pandemic in the current nine-month period as compared to the prior year nine-month period. Total DARTs for cleared and execution-only customers, for the current nine-month period, increased 99% to 1.68 million, compared to 845 thousand for the prior year nine-month period. DARTs for cleared customers, i.e., customers for whom we execute trades, as well as clear and carry positions, for the current nine-month period, increased 98% to 1.50 million, compared to 758 thousand for the prior year nine-month period. Average commission per commissionable order for cleared customers, for the current nine-month period, decreased 21% to \$2.91, compared to \$3.68 for the prior year nine-month period, reflecting smaller average order sizes across all products as well as some effect from higher exchange rebates passed through to our customers. Smaller trade sizes are often seen in high volatility periods, as traders choose to risk less per trade in fast-moving markets.

***Other Fees and Services***

Other fees and services, for the current nine-month period, increased \$18 million, or 17%, compared to the prior year nine-month period, to \$123 million, driven by a \$13 million increase in IPO-related fee income, a \$10 million increase in market data fee income, and a \$4 million increase in payments for order flow income from options exchange-mandated programs; partially offset by a \$5 million decrease in risk exposure fee income, a \$2 million decrease in FDIC Insured Bank Deposit Sweep Program fee income, and a \$2 million decrease in other customer related fee income.

***Other Income***

Other income, for the current nine-month period, increased \$27 million, compared to the prior year nine-month period, to a gain of \$25 million. This increase was mainly comprised of (1) a \$66 million increase related to our currency diversification strategy, which lost \$6 million in the current nine-month period compared to a loss of \$72 million in the prior year nine-month period; partially offset by (2) a \$12 million decrease related our U.S. government securities portfolio, which swung to a \$4 million net mark-to-market loss in the current nine-month period from a \$8 million net mark-to-market gain in the prior year nine-month period; (3) a \$4 million decrease in net mark-to-market gains on our investment in Tiger Brokers, which decreased to a \$12 million mark-to-market gain in the current nine-month period; (4) a \$17 million decrease related to other investments, which decreased to a \$28 million net mark-to-market gain in the current nine-month period; and (5) a \$13 million impairment loss on our investment in OneChicago Exchange recognized in the current nine-month period.

A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

***Interest Income and Interest Expense***

Net interest income (interest income less interest expense), for the current nine-month period, decreased \$149 million, or 19%, compared to the prior year nine-month period, to \$647 million. The decrease in net interest income was primarily driven by lower benchmark interest rates.

Net interest income on customer balances, for the current nine-month period, decreased \$159 million, compared to the prior year nine-month period, driven by a decrease in the average federal funds effective rate to 0.47% from 2.33% in the prior year nine-month period, partially offset by a \$13.9 billion increase in average customer credit balances, a portion of which was invested in interest-bearing U.S. government securities and a \$1.0 billion increase in average customer margin loans. See the “Business Environment” section above in this Item 2 for a further discussion about the change in interest rates in the current nine-month period.

We earn income on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow us to lend it out. We pay customers a rebate on the cash collateral generally equal to 50% of the income we earn from lending the shares. We place cash collateral securing the loans in the customer's account.

In the current nine-month period, average securities borrowed increased 14%, to \$4.4 billion and average securities loaned increased 33%, to \$5.3 billion, compared to the prior year nine-month period. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers. During the current nine-month period, net interest earned from securities lending transactions increased \$51 million, or 29%, compared to the prior year nine-month period, as we satisfied the demand for more hard-to-borrow securities that investors were looking to sell short. It should be noted that securities lending transactions entered into to support customer activity may produce interest income (expense) that is offset by interest expense (income) related to customer balances.

The Company measures return on interest-earning assets using net interest margin ("NIM"). NIM is computed by dividing the annualized net interest income by the average interest-earning assets for the period. Interest-earning assets consist of cash and securities segregated for regulatory purposes (including U.S. government securities and securities purchased under agreements to resell), customer margin loans, securities borrowed, other interest-earning assets (solely firm assets) and customer cash balances swept into FDIC insured banks as part of our Insured Bank Deposit Sweep Program. Interest-bearing liabilities consist of customer credit balances, securities loaned, and other interest-bearing liabilities.

Yields are generally a reflection of benchmark interest rates in each currency in which the Company and its customers hold cash balances. Because a substantial portion of customer cash and margin loans are denominated in currencies other than the U.S. dollar, changes in U.S. benchmark interest rates do not impact the total amount of segregated cash and securities, customer margin loans and customer credit balances. Furthermore, because interest, when benchmark rates are at higher levels, is paid only on eligible cash credit balances (i.e., balances over \$10 thousand or equivalent, in securities accounts with over \$100 thousand in equity, and in smaller accounts at reduced rates), changes in benchmark interest rates are not passed through to the total amount of customer credit balances. Finally, the Company's policies with respect to currencies with negative interest rates impact the yields on segregated cash and customer credit balances as effective interest rates in those currencies fluctuate.

Generally, as benchmark interest rates rise, a larger portion of the interest earned on securities lending transactions is reported as net interest income on "Segregated cash and securities, net" instead of "Securities borrowed and loaned, net" because interest earned on cash collateral held in specially designated bank accounts for the benefit of customers, in accordance with the U.S. customer protection rules, increases.

The table below presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the periods indicated.

	Nine Months Ended September 30,	
	2020	2019
(in millions)		
<b>Average interest-earning assets</b>		
Segregated cash and securities	\$ 41,283	\$ 27,384
Customer margin loans	27,052	26,014
Securities borrowed	4,448	3,900
Other interest-earning assets	5,288	5,202
FDIC sweeps <sup>1</sup>	2,864	1,999
	<u>\$ 80,935</u>	<u>\$ 64,499</u>
<b>Average interest-bearing liabilities</b>		
Customer credit balances	\$ 65,716	\$ 51,786
Securities loaned	5,304	3,993
Other interest-bearing liabilities	313	78
	<u>\$ 71,333</u>	<u>\$ 55,857</u>
<b>Net Interest income</b>		
Segregated cash and securities, net	\$ 159	\$ 434
Customer margin loans <sup>2</sup>	287	537
Securities borrowed and loaned, net	228	177
Customer credit balances, net <sup>2</sup>	(55)	(421)
Other net interest income <sup>1/3</sup>	47	94
Net interest income <sup>3</sup>	<u>\$ 666</u>	<u>\$ 821</u>
<b>Net interest margin ("NIM")</b>	<u>1.10%</u>	<u>1.70%</u>
<b>Annualized Yields</b>		
Segregated cash and securities	0.51%	2.12%
Customer margin loans	1.41%	2.76%
Customer credit balances	0.11%	1.09%

- (1) Represents the average amount of customer cash swept into FDIC-insured banks as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's condensed consolidated statements of financial condition. Income derived from program deposits is reported in other net interest income in the table above.
- (2) Interest income and interest expense on customer margin loans and customer credit balances, respectively, are calculated on daily cash balances within each customer's account on a net basis, which may result in an offset of balances across multiple account segments (e.g., between securities and commodities segments).
- (3) Includes income from financial instruments that has the same characteristics as interest, but is reported in other fees and services and other income in the Company's condensed consolidated statements of comprehensive income. For the nine months ended September 30, 2020 and 2019, \$14 million and \$10 million were reported in other fees and services, respectively, and \$5 million and \$15 million were reported in other income, respectively.



### *Non-Interest Expenses*

Non-interest expenses, for the current nine-month period, increased \$163 million, or 28%, compared to the prior year nine-month period, to \$755 million, mainly due to a \$126 million increase in general and administrative expenses; a \$35 million increase in execution, clearing and distribution fees; a \$26 million increase in employee compensation and benefits; and an \$8 million increase in occupancy expenses; partially offset by a \$32 million decrease in customer bad debt expense. As a percentage of total net revenues, non-interest expenses were 47% for the current nine-month period and 41% for the prior year nine-month period.

#### *Execution, Clearing and Distribution Fees*

Execution, clearing and distribution fees, for the current nine-month period, increased \$35 million, or 18%, compared to the prior year nine-month period, to \$227 million, driven by higher trade volumes, as total customer options and futures contract and stock share volumes increased 64%, 33% and 63%, respectively, compared to the prior year nine-month period.

#### *Employee Compensation and Benefits*

Employee compensation and benefits expenses, for the current nine-month period, increased \$26 million, or 12%, compared to the prior year nine-month period, to \$239 million, associated with a 19% increase in the average number of employees to 1,771 for the current nine-month period, compared to 1,493 for the prior year nine-month period. We continued to add staff in customer service, compliance, and software development. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 15% for both the current nine-month period and the prior year nine-month period.

#### *Occupancy, Depreciation and Amortization*

Occupancy, depreciation and amortization expenses, for the current nine-month period, increased \$8 million, or 19%, compared to the prior year nine-month period, to \$51 million, mainly due to higher costs related to the expansion of our physical space for both offices and data centers. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 3% for both the current nine-month period and the prior year nine-month period.

#### *Communications*

Communications expenses for the current nine-month period and for the prior year nine-month period were \$19 million.

#### *General and Administrative*

General and administrative expenses, for the current nine-month period, increased \$126 million, or 158%, compared to the prior year nine-month period, to \$206 million, primarily due to \$103 million in expenses incurred to compensate certain affected customers in connection with their losses resulting from the West Texas Intermediate Crude Oil futures contracts settling at a price below zero on April 20, 2020, as described above; a \$5 million donation to assist efforts to provide food and support for people affected by the COVID-19 pandemic in the United States as well as to advance medical solutions; higher advertising expenses; and higher professional services fees and expenses related to compliance, legal and regulatory matters. As a percentage of total net revenues, general and administrative expenses were 13% for the current nine-month period and 6% for the prior year nine-month period.

#### *Customer Bad Debt*

Customer bad debt expense, for the current nine-month period, decreased \$32 million, or 71%, compared to the prior year nine-month period, to \$13 million, due to the non-recurrence of \$42 million in bad expense related to margin lending on a particular security listed on a major U.S. exchange that lost a substantial amount of its value in a very short timeframe that occurred in the prior year nine-month period; partially offset by higher bad debt expense resulting from the unusually volatile markets in the current nine-month period compared to the prior year nine-month period. See Note 13 - "Commitments, Contingencies, and Guarantees" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Income Tax Expense

Income tax expense, for the current nine-month period, increased \$15 million, or 30%, to \$65 million, compared to the prior year nine-month period, due to higher income tax expense outside the United States and a return to provision adjustment of \$4 million recorded in the current nine-month period, partially offset by a \$3 million lower income tax expense attributable to IBG, Inc. driven by a \$6 million return to provision adjustment recorded in the prior year nine-month period.

The table below presents information about our income tax expense for the periods indicated.

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in millions, except %)</b>	
<b>Consolidated</b>		
Consolidated income before income taxes	\$ 864	\$ 845
IBG, Inc. stand-alone income before income taxes	-	(1)
Operating subsidiaries income before income taxes	<u>\$ 864</u>	<u>\$ 846</u>
<b>Operating subsidiaries</b>		
Income before income taxes	\$ 864	\$ 846
Income tax expense	34	16
Net income available to members	<u>\$ 830</u>	<u>\$ 830</u>
<b>IBG, Inc.</b>		
Average ownership percentage in IBG LLC	18.6%	18.3%
Net income available to IBG, Inc. from operating subsidiaries	\$ 155	\$ 152
IBG, Inc. stand-alone income before income taxes	-	(1)
Income before income taxes	155	151
Income tax expense	31	34
Net income available to common stockholders	<u>\$ 124</u>	<u>\$ 117</u>
<b>Consolidated income tax expense</b>		
Income tax expense attributable to operating subsidiaries	\$ 34	\$ 16
Income tax expense attributable IBG, Inc.	31	34
Consolidated income tax expense	<u>\$ 65</u>	<u>\$ 50</u>

### Operating Results

Income before income taxes, for the current nine-month period, increased \$19 million, or 2%, to \$864 million, compared to the prior year nine-month period. Pretax profit margin was 53% for the current nine-month period and 59% for the prior year nine-month period.

Comparing our operating results for the current nine-month period to the prior year nine-month period, excluding the non-GAAP financial measures described below, adjusted net revenues were \$1,622 million, up 10%; adjusted income before income taxes was \$971 million, up 4%; and adjusted pre-tax profit margin was 60% for the current nine-month period and 63% for the prior year nine-month period. See the “Non-GAAP Financial Measures” section below in this Item 2 for additional details.

### Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of investments of customer funds, collateralized receivables arising from customer-related and proprietary securities transactions, and exchange-listed marketable securities, which are marked-to-market daily. Collateralized receivables consist primarily of customer margin loans, securities borrowed and securities purchased under agreements to resell. As of September 30, 2020, total assets were \$84.7 billion of which approximately \$84.1 billion, or 99.3%, were considered liquid.

Decisions on the allocation of capital are based upon, among other things, prudent risk management guidelines, potential liquidity and cash flow needs for current and future business activities, regulatory capital requirements, and projected profitability. Our Treasury department, Risk Committee and other management control groups assist in evaluating, monitoring and controlling the impact that our business activities have on our financial condition, liquidity and capital structure. The objective of these policies is to support our corporate business strategies while ensuring ongoing and sufficient liquidity.

Daily monitoring of liquidity needs and available collateral levels is undertaken to help ensure that an appropriate liquidity cushion, in the form of cash and unpledged collateral, is maintained at all times. We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. As a general practice, we maintain sufficient levels of cash on hand to provide us with a buffer should we need immediately available funds for any reason. In addition, pursuant to our liquidity management plan we perform periodic liquidity stress tests, which are designed to identify and reserve liquid assets that would be available under market or idiosyncratic stress events. Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings will be adequate to meet our future liquidity needs for more than the next twelve months.

As of September 30, 2020, liability balances in connection with securities loaned and payables to customers were lower than the average monthly balance during the current quarter, and short-term borrowings were higher than their average monthly balance during the current quarter.

Cash and cash equivalents held by our non-U.S. operating subsidiaries as of September 30, 2020 were \$1,132 million (\$1,121 million as of December 31, 2019). These funds are primarily intended to finance each individual operating subsidiary's local operations, and thus would not be available to fund U.S. domestic operations unless repatriated through payment of dividends to IBG LLC. As of September 30, 2020, we had no intention to repatriate further amounts from non-U.S. operating subsidiaries except for Timber Hill Canada Company, which discontinued its market making activity in Canada in 2019. With the enactment of the U.S. Tax Cuts and Jobs Act on December 22, 2017, we recognized a liability for the one-time transition tax on deemed repatriation of earnings of some of our foreign subsidiaries for the year ended December 31, 2017. As a result, in the event dividends were to be paid to the Company in the future by a non-U.S. operating subsidiaries, the Company would not be required to accrue and pay income taxes on such dividends, except for foreign taxes in the form of dividend withholding tax, if any, imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity increased 12% to \$8.5 billion as of September 30, 2020 from \$7.7 billion as of September 30, 2019. This increase is attributable to total comprehensive income, partially offset by distributions and dividends paid during the last four quarters.

### *Cash Flows*

The table below presents our cash flows from operating activities, investing activities and financing activities for the periods indicated.

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Net cash provided by operating activities	\$ 3,472	\$ 2,178
Net cash used in investing activities	(28)	(77)
Net cash provided by (used in) financing activities	326	(358)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	29	(14)
Increase in cash, cash equivalents, and restricted cash	<u>\$ 3,799</u>	<u>\$ 1,729</u>

Our cash flows from operating activities are largely a reflection of the changes in customer credit and margin loan balances. Our cash flows from investing activities are primarily related to other investments, capitalized internal software development, purchases and sales of memberships, trading rights and shares at exchanges where we trade, and strategic investments where such investments may enable us to offer better execution alternatives to our current and prospective customers, allow us to influence exchanges to provide competing products at better prices using sophisticated technology, or enable us to acquire either technology or customers faster than we could develop them on our own. Our cash flows from financing activities are comprised of short-term borrowings, capital transactions and payments made to Holdings under the Tax Receivable Agreement. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Capital transactions consist primarily of quarterly dividends paid to common

stockholders and related distributions paid to Holdings.

**Nine Months Ended September 30, 2020:** Our cash, cash equivalents, and restricted cash (i.e., cash and cash equivalents that are subject to withdrawal or usage restrictions) increased by \$3,799 million to \$16.1 billion for the nine months ended September 30, 2020. We raised \$3,472 million in net cash from operating activities mainly driven by customer credit balances which increased by \$12.6 billion; and customer margin loans which decreased by \$0.9 billion as customers deleveraged due to the COVID-19 pandemic; partially offset by a \$11.5 billion increase in our investments in securities segregated for regulatory purposes securities. We used net cash of \$298 million in our investing and financing activities, primarily for distributions to noncontrolling interests and dividends paid to our common stockholders. Investing activities mainly consisted of purchases of other investments and property, equipment and intangible assets.

**Nine Months Ended September 30, 2019:** For a discussion of changes in cash flows for the nine months ended September 30, 2019 refer to our Quarterly Report on Form 10-Q filed with the SEC on November 12, 2019.

### ***Regulatory Capital Requirements***

Our principal operating subsidiaries are subject to separate regulation and capital requirements in the U.S. and other jurisdictions. IB LLC, TH LLC and IB Corp are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, IB LLC is also subject to the CFTC's minimum financial requirements (Regulation 1.17). IBC is subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the United Kingdom Financial Conduct Authority Capital Requirements Directive, IBLUX is subject to the Luxembourg Commission de Surveillance du Secteur Financier financial resources requirement, IBKRFS is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement, IBI is subject to the National Stock Exchange of India net capital requirements, IBHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements, IBSG is subject to the Monetary Authority of Singapore capital requirements, and IBA is subject to the Australian Securities Exchange liquid capital requirement.

As of September 30, 2020, aggregate excess regulatory capital for all our operating subsidiaries was \$5.9 billion, and all operating subsidiaries were in compliance with their respective regulatory capital requirements.

### **Capital Expenditures**

Our capital expenditures are comprised of compensation costs of our software engineering staff for development of software for internal use and expenditures for computer, networking and communications hardware, and leasehold improvements. These expenditure items are reported as property, equipment, and intangible assets. Capital expenditures for property, equipment, and intangible assets were approximately \$31 million and \$62 million for the nine months ended September 30, 2020 and 2019, respectively. In the future, we plan to meet capital expenditure needs with cash from operations and cash on hand, as we continue our focus on technology infrastructure initiatives to further enhance our competitive position. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any additional strategic acquisitions, we may incur additional capital expenditures.

### **Seasonality**

Our businesses are subject to seasonal fluctuations, reflecting varying numbers of market participants at times during the year, varying numbers of trading days from quarter-to-quarter, and declines in trading activity due to holidays. Typical seasonal trends may be superseded by market or world events, which can have a significant impact on prices and trading volume.

### **Inflation**

Although we cannot accurately anticipate the effects of inflation on our operations, we believe that, for the three most recent years, inflation has not had a material impact on our results of operations and will not likely have a material impact in the foreseeable future.

### **Investments in U.S. Government Securities**

We invest in U.S. government securities for the purpose of satisfying U.S. regulatory requirements. As a broker-dealer, unlike banks, we are required to mark these investments to market even though we intend to hold them to maturity. Sudden increases (decreases) in interest rates will cause mark-to-market losses (gains) on these securities, which are recovered (eliminated) if we hold them to maturity, as currently intended. The impact of changes in interest rates is further described in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

## **Strategic Investments and Acquisitions**

We regularly evaluate potential strategic investments and acquisitions. We hold strategic investments in electronic trading exchanges including BOX Options Exchange, LLC. We also hold a strategic investment in Tiger Brokers, an online stock brokerage established for Chinese retail and institutional customers, in which we have a beneficial ownership interest of 7.6%.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to offer better execution alternatives to our current and prospective customers, allow us to influence exchanges to provide competing products at better prices using sophisticated technology, or enable us to acquire either technology or customers faster than we could develop them on our own.

As of September 30, 2020, there were no other definitive agreements with respect to any material acquisition.

## **Certain Information Concerning Off-Balance-Sheet Arrangements**

We may be exposed to a risk of loss not reflected in our condensed consolidated financial statements for futures products, which represent our obligations to settle at contracted prices, and which may require us to repurchase or sell in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as our cost to liquidate such futures contracts may exceed the amounts reported in our condensed consolidated statements of financial condition.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. We believe that the critical policies listed below represent the most significant estimates used in the preparation of our consolidated financial statements. See Note 2 – “Significant Accounting Policies” to the unaudited condensed consolidated financial statements for a summary of our significant accounting policies in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## ***Contingencies***

Our policy is to estimate and accrue for potential losses that may arise out of litigation and regulatory proceedings, to the extent that such losses are probable and can be estimated. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience with and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

## ***Income Taxes***

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws and reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgment and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of the underlying assets and liabilities. In evaluating our ability to recover our deferred tax assets within the jurisdictions from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. We record tax liabilities in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 740 and adjust these liabilities when management's judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

We recognize that a tax benefit from an uncertain tax position may be recognized only when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. A tax position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement.

### **Accounting Pronouncements Issued But Not Yet Adopted**

For additional information regarding FASB Accounting Standards Updates ("ASU"s) that have been issued but not yet adopted and that may impact the Company, refer to Note 2 – "Significant Accounting Policies" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on form 10-Q.

### **Non-GAAP Financial Measures**

We use certain non-GAAP financial measures as additional measures to enhance the understanding of our financial results. These non-GAAP financial measures include adjusted net revenues, adjusted income before income taxes, adjusted net income available for common stockholders and adjusted diluted earnings per share ("EPS"). We believe that these non-GAAP financial measures are important measures of our financial performance because they exclude certain items that may not be indicative of our core operating results and business outlook and may be useful to investors and analysts in evaluating the operating performance of the business and facilitating a meaningful comparison of our results in the current period to those in prior and future periods.

Adjusted net revenues, adjusted income before income taxes, adjusted net income available for common stockholders and adjusted EPS are non-GAAP financial measures as defined by SEC Regulation G.

- We define adjusted net revenues as net revenues adjusted to remove the effect of our currency diversification strategy and net mark-to-market on investments.
- We define adjusted income before income taxes as income before income taxes adjusted to remove the effect of our currency diversification strategy, net mark-to-market on investments, customer compensation expense, and unusual bad debt expense.
- We define adjusted net income available to common stockholders as net income available for common stockholders adjusted to remove the after-tax effects of our currency diversification strategy, net mark-to-market on investments, customer compensation expense, and unusual bad debt expense attributable to IBG, Inc.

Mark-to-market on investments represents the net mark-to-market gains (losses) on our U.S. government securities portfolio, which are typically held to maturity, investments in equity securities that do not qualify for equity method accounting which are measured at fair value, and equity securities taken over by the Company from customers related to losses on margin loans described below.

Customer compensation expense represents expenses incurred to compensate certain affected customers in connection with their losses resulting from the West Texas Intermediate Crude Oil futures contracts settling at a price below zero on April 20, 2020, as described in Part I, Item 2 of this Quarterly Report on Form10-Q.

Unusual bad debt expense includes material losses on margin loans resulting from unusual events that occur in the marketplace. For the nine months ended September 30, 2020, unusual bad debt expense reflects losses incurred by futures customers in excess of the equity in their accounts, related the West Texas Intermediate Crude Oil event described in Part I, Item 2 of this Quarterly Report on Form10-Q. For the nine months ending September 30, 2019, unusual bad debt expense reflects losses recognized on margin lending to a small number of our brokerage customers that had taken relatively large positions in a security listed on a major U.S. exchange, which lost a substantial amount of its value in a very short timeframe. (See Note 13 – “Commitments, Contingencies and Guarantees” to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form10-Q.)

The effect of our currency diversification strategy, net mark-to-market on investments, customer compensation expense, and unusual bad debt expense are excluded because management does not believe they are indicative of our underlying core business performance.

These non-GAAP measures should be considered in addition to, rather than as a substitute for, measures of financial performance prepared in accordance with GAAP<sup>(1)</sup>.

---

<sup>(1)</sup> Refers to generally accepted accounting principles in the United States.

The table below presents a reconciliation of consolidated GAAP to non-GAAP financial measures for the periods indicated.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
<b>Adjusted net revenues</b>				
Net revenues - GAAP	\$ 548	\$ 466	\$ 1,619	\$ 1,437
Non-GAAP adjustments				
Currency diversification strategy, net	(27)	47	6	72
Mark-to-market on investments	(3)	12	(3)	(28)
Total non-GAAP adjustments	(30)	59	3	44
Adjusted net revenues	<u>\$ 518</u>	<u>\$ 525</u>	<u>\$ 1,622</u>	<u>\$ 1,481</u>
<b>Adjusted income before income taxes</b>				
Income before income taxes - GAAP	\$ 334	\$ 281	\$ 864	\$ 845
Non-GAAP adjustments				
Currency diversification strategy, net	(27)	47	6	72
Mark-to-market on investments	(3)	12	(3)	(28)
Customer compensation expense	-	-	103	-
Bad debt expense	-	-	1	42
Total non-GAAP adjustments	(30)	59	107	86
Adjusted income before income taxes	<u>\$ 304</u>	<u>\$ 340</u>	<u>\$ 971</u>	<u>\$ 931</u>
Pre-tax profit margin	59%	65%	60%	63%

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
<b>Adjusted net income available for common stockholders</b>				
Net income available for common stockholders - GAAP	\$ 46	\$ 36	\$ 124	\$ 117
Non-GAAP adjustments				
Currency diversification strategy, net	(5)	9	1	13
Mark-to-market on investments	(1)	2	(1)	(5)
Customer compensation expense	-	-	19	-
Bad debt expense	-	-	0	8
Income tax effect of above adjustments <sup>1</sup>	1	(3)	(4)	(4)
Total non-GAAP adjustments	(4)	9	16	12
Adjusted net income available for common stockholders	<u>\$ 42</u>	<u>\$ 45</u>	<u>\$ 140</u>	<u>\$ 129</u>

Note: Amounts may not add due to rounding.



	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in dollars)			
<b>Adjusted diluted EPS</b>				
Diluted EPS - GAAP	\$ 0.58	\$ 0.45	\$ 1.58	\$ 1.52
Non-GAAP adjustments				
Currency diversification strategy, net	(0.06)	0.11	0.02	0.17
Mark-to-market on investments	(0.01)	0.03	(0.01)	(0.06)
Customer compensation expense	0.00	0.00	0.24	0.00
Bad debt expense	0.00	0.00	0.00	0.10
Income tax effect of above adjustments <sup>1</sup>	0.02	(0.03)	(0.05)	(0.05)
Total non-GAAP adjustments	(0.05)	0.11	0.20	0.16
Adjusted diluted EPS	<u>\$ 0.53</u>	<u>\$ 0.57</u>	<u>\$ 1.79</u>	<u>\$ 1.68</u>
Diluted weighted average common shares	79,120,548	77,348,976	78,243,699	76,646,487

Note: Amounts may not add due to rounding.

(1) The income tax effect is estimated using the corporate income tax rates applicable to the Company.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks. Our exposures to market risks arise from assumptions built into our pricing models, equity price risk, foreign currency exchange rate fluctuations related to our international operations, changes in interest rates and risks relating to the extension of margin credit to our customers.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, we incur trading-related market risk as a result of our remaining market making activity, where the substantial majority of our Value-at-Risk (“VaR”) for market risk exposures is generated. In addition, we incur non-trading-related market risk primarily from investment activities and from foreign currency exposure held in the equity of our foreign subsidiaries, i.e., our non-U.S. brokerage subsidiaries and information technology subsidiaries, and held to meet target balances in our currency diversification strategy.

We use various risk management tools in managing our market risk, which are embedded in our real-time market making systems. We employ certain hedging and risk management techniques to protect us from a severe market dislocation. Our risk management policies are developed and implemented by our steering committee, which is chaired by our Chief Executive Officer and comprised of senior executives of our various companies. The strategy of our market making activity is to calculate quotes a few seconds ahead of the market and execute small trades at a tiny but favorable differential as a result. This is made possible by our proprietary pricing model, which evaluates and monitors the risks inherent in our portfolio, assimilates external market data and reevaluates the outstanding quotes in our portfolio many times per second. Our model automatically rebalances our positions throughout each trading day to manage risk exposures on our options and futures positions and the underlying securities, and will price the increased risk that a position would add to the overall portfolio into the bid and offer prices we post. Under risk management policies implemented and monitored primarily through our computer systems, reports to management, including risk profiles, profit and loss analysis and trading performance, are prepared on a real-time basis as well as daily and periodical bases. Although our market making activity is completely automated, the trading process and our risk are monitored by a team of individuals who, in real time, observe various risk parameters of our consolidated positions. Our assets and liabilities are marked-to-market daily for financial reporting purposes and re-valued continuously throughout the trading day for risk management and asset/liability management purposes.

We use a covariant VaR methodology to measure, monitor and review the market risk of our market making portfolios, with the exception of fixed income products, and our currency exposures. The risk of fixed income products, which comprise primarily U.S. government securities, is measured using a stress test.

#### *Pricing Model Exposure*

As described above, our proprietary pricing model, which continuously evaluates and monitors the risks inherent in our portfolio, assimilates external market data and reevaluates the outstanding quotes in our entire portfolio many times per second. Certain aspects of the model rely on historical prices of securities. If the behavior of price movements of individual securities diverges substantially from what their historical behavior would predict, we might incur trading losses. We attempt to limit such risks by diversifying our portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security. Historically, our losses from these events have been immaterial in comparison to our annual trading profits.

#### *Foreign Currency Exposure*

As a result of our international activities and accumulated earnings in our foreign subsidiaries, our income and net worth is exposed to fluctuations in foreign exchange rates. For example, our European operations and some of our Asian operations are conducted by our Swiss subsidiary, IBKRFS. IBKRFS is regulated by the Swiss Financial Market Supervisory Authority as a securities dealer and its financial statements are presented in Swiss francs. Accordingly, IBKRFS is exposed to certain foreign exchange risks as described below:

- IBKRFS buys and sells securities denominated in various currencies and carries bank balances and borrows and lends such currencies in its regular course of business. At the end of each accounting period, IBKRFS’ assets and liabilities are revalued into Swiss francs for presentation in its financial statements. The resulting foreign currency gains or losses are reported in IBKRFS’ income statement and, as translated into U.S. dollars for U.S. GAAP purposes, in our condensed consolidated statement of comprehensive income, as a component of other income.
- IBKRFS’ financial statements are presented in Swiss francs (i.e., its functional currency) as noted above. At the end of each accounting period, IBKRFS’ net worth is translated at the then prevailing exchange rate into U.S. dollars and the resulting translation gain or loss is reported as OCI in our condensed consolidated statement of financial condition and condensed consolidated statement of comprehensive income. OCI is also produced by our other non-U.S. subsidiaries.

Historically, we have taken the approach of not hedging the above exposures, based on the notion that the cost of constantly hedging over the years would amount to more than the random impact of rate changes on our non-U.S. dollar balances. For instance, an increase in the value of the Swiss franc would be unfavorable to the earnings of IBKRFS but would be counterbalanced to some extent by the fact that the translation gain or loss into U.S. dollars is likely to move in the opposite direction.

Our risk management systems incorporate cash forex to hedge our currency exposure at little or no cost. The majority of currency spot positions held as part of our currency diversification strategy are regularly transferred to the parent holding company, IBG LLC, where they are held. In connection with the development of our currency diversification strategy, we determined to base our net worth in GLOBALs, a basket of currencies.

Because we conduct business in many countries and many currencies and because we consider ourselves a global enterprise based in a diversified basket of currencies rather than a U.S. dollar based company, we actively manage our global currency exposure by maintaining our equity in GLOBALs. The U.S. dollar value of the GLOBAL increased from \$0.959 to \$0.971, or 1.18%, as of September 30, 2020 compared to September 30, 2019. As of September 30, 2020, approximately 26% of our equity was denominated in currencies other than the U.S. dollar.

The table below presents a comparison of the U.S. dollar equivalent of the GLOBAL for the periods indicated.

Currency	Composition	As of 9/30/2019				New Composition	As of 9/30/2020				CHANGE in % of Comp.
		FX Rate	GLOBAL in USD Equiv.	% of Comp. (in USD millions)	Net Equity		FX Rate	GLOBAL in USD Equiv.	% of Comp. (in USD millions)	Net Equity	
USD	0.68	1.0000	0.680	70.9%	\$ 5,424	0.72	1.0000	0.720	74.2%	\$ 6,338	3.3%
EUR	0.09	1.0899	0.098	10.2%	782	0.09	1.1721	0.105	10.9%	929	0.6%
JPY	4.41	0.0093	0.041	4.3%	325	3.91	0.0095	0.037	3.8%	326	-0.4%
GBP	0.02	1.2295	0.025	2.6%	196	0.02	1.2924	0.026	2.7%	227	0.1%
CHF	0.02	1.0020	0.020	2.1%	160	0.02	1.0859	0.022	2.2%	191	0.1%
CNH	0.10	0.1400	0.014	1.5%	112	0.13	0.1474	0.019	2.0%	169	0.5%
INR	1.10	0.0142	0.016	1.6%	124	1.10	0.0136	0.015	1.5%	132	-0.1%
CAD	0.02	0.7553	0.015	1.6%	121	0.02	0.7506	0.011	1.2%	99	-0.4%
AUD	0.02	0.6752	0.014	1.4%	108	0.02	0.7163	0.011	1.1%	95	-0.3%
HKD	0.14	0.1276	0.018	1.9%	142	0.04	0.1290	0.005	0.5%	40	-1.4%
MXN	0.17	0.0507	0.009	0.9%	69	-	0.0452	-	0.0%	-	-0.9%
SEK	0.05	0.1016	0.005	0.5%	41	-	0.1117	-	0.0%	-	-0.5%
NOK	0.03	0.1099	0.003	0.3%	26	-	0.1072	-	0.0%	-	-0.3%
DKK	0.02	0.1460	0.003	0.3%	23	-	0.1574	-	0.0%	-	-0.3%
			<b>0.959</b>	<b>100.0%</b>	<b>\$ 7,653</b>			<b>0.971</b>	<b>100.0%</b>	<b>\$ 8,546</b>	<b>0.0%</b>

The effects of our currency diversification strategy appear in two places in the condensed consolidated financial statements: (1) as a component of other income in the condensed consolidated statement of comprehensive income and (2) as OCI in the condensed consolidated statement of financial condition and the condensed consolidated statement of comprehensive income. The full effect of the GLOBAL is captured in the condensed consolidated statement of comprehensive income.

Reported results on a comprehensive basis reflect the U.S. GAAP convention that requires the reporting of currency translation results contained in OCI as part of reportable earnings.

### *Change in the Composition of the “GLOBAL”*

As a result of a periodic assessment, we decided to reduce the number of currencies in the GLOBAL and realign the relative weights of each component to better reflect the global diversification of its business going forward. The Company removed the Danish krone (DKK), the Mexican peso (MXN), the Norwegian krone (NOK) and the Swedish krona (SEK). The new composition contains 10 currencies, down from 14 in the prior composition. The new composition took effect as of the close of business on June 30, 2020 and the conversion to the new targeted currency holdings took place shortly thereafter.

### *Interest Rate Risk*

We had no variable-rate debt outstanding as of September 30, 2020.

We pay our customers interest based on benchmark overnight interest rates in various currencies, when interest rates are above a benchmark rate plus a small spread, on cash balances above \$10 thousand (or equivalent) in securities accounts holding more than \$100 thousand and at lower, tiered rates for accounts holding less than \$100 thousand (or equivalent) net asset value. In a normal rate environment, we typically invest a portion of these funds in U.S. government securities with maturities of up to two years. If interest rates were to increase rapidly and substantially, our net interest income would not increase proportionally with the interest rates for the portion of the funds invested in the U.S. government securities with fixed yields. In addition, the mark-to-market changes in the value of these fixed rate securities will be reflected in other income, instead of net interest income. Based on customer balances and investments outstanding as of September 30, 2020, and assuming reinvestment of maturing instruments in instruments of short-term duration, an unexpected increase of 0.25% over current U.S. dollar interest rate levels would increase our net interest income by approximately \$94 million over the first year and \$103 million on an annualized basis, assuming the full effect of reinvestment at higher rates. Our interest rate sensitivity estimate contains separate assumptions for U.S. dollar rates from other currencies' rates and it isolates the effects of a rate increase on reinvestments. We do not approximate mark-to-market impact from interest rate changes; if U.S. government securities whose prices were to fall under these scenarios were held to maturity, as intended, then the reduction in other income would be temporary, as the securities would mature at par value.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Based on customer balances and investments outstanding as of September 30, 2020, and assuming reinvestment of maturing instruments in instruments of short-term duration, an unexpected decrease in U.S. dollar interest rates of 0.25% would decrease our net interest income by approximately \$61 million over the first year and \$65 million on an annualized basis, assuming the full effect of reinvestment at lower rates.

We also face interest rate risk due to positions carried for our market making activity to the extent that long or short stock positions may have been established for future or forward dates on options or futures contracts and the value of such positions are impacted by interest rates. The amount of such risk cannot be quantified, however, the reduction of market making positions has substantially reduced this exposure.

### ***Dividend Risk***

We face dividend risk in our remaining market making activity as we derive revenues and incur expenses in the form of dividend income and expense, respectively, from our inventory of equity securities, and must make payments in lieu of dividends on short positions in equity securities within our portfolio. Projected future dividends are an important component of pricing equity options and other derivatives, and incorrect projections may lead to trading losses. The amount of such risk cannot be quantified, however, the reduction of market making positions has substantially reduced this exposure.

### ***Margin Loans***

We extend margin loans to our customers, which are subject to various regulatory requirements. Margin loans are collateralized by cash and securities in the customers' accounts. The risks associated with margin credit increase during periods of fast market movements or in cases where collateral is concentrated and market movements occur. During such times, customers who utilize margin loans and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of a liquidation. We are also exposed to credit risk when our customers execute transactions, such as short sales of options and equities that can expose them to risk beyond their invested capital.

We expect this kind of exposure to increase with the growth of our overall business. Because we indemnify and hold harmless our clearing houses and counterparties from certain liabilities or claims, the use of margin loans and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of September 30, 2020, we had \$30.3 billion in margin loans extended to our customers. The amount of risk to which we are exposed from the margin loans we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. Our account level margin requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve and FINRA portfolio margin rules, as applicable. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

We have a comprehensive policy implemented in accordance with regulatory standards to assess and monitor the suitability of investors to engage in various trading activities. To mitigate our risk, we also continuously monitor customer accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us.

Our credit exposure is to a great extent mitigated by our policy of automatically evaluating each account throughout the trading day and closing out positions automatically for accounts that are found to be under-margined. While this methodology is effective in most situations, it may not be effective in situations where no liquid market exists for the relevant securities or commodities or where, for any reason, automatic liquidation for certain accounts has been disabled. Our Risk Management Committee continually monitors and evaluates our risk management policies, including the implementation of policies and procedures to enhance the detection and prevention of potential events to mitigate margin loan losses.

### ***Value-at-Risk***

We estimate VaR using an historical approach, which uses the historical daily price returns of underlying assets as well as estimates of the end of day implied volatility for options. Our one-day VaR is defined as the unrealized loss in portfolio value that, based on historically observed market risk factors, would have been exceeded with a frequency of one percent, based on a calculation with a confidence interval of 99%.

Our VaR model generally takes into account exposures to equity and commodity price risk and foreign exchange rates.

We use VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various strengths and limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity.

The VaR calculation simulates the performance of the portfolio based on several years of daily price changes of the underlying assets and determines the VaR as the calculated loss that occurs at the 99<sup>th</sup> percentile.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of our future revenues or financial performance or of our ability to monitor and manage risk. There can be no assurance that our actual losses on a particular day will not exceed the indicated VaR or that such losses will not occur more than one time in 100 trading days. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

### ***Stress Test***

We estimate the market risk of our fixed income portfolio using a risk analysis model provided by a leading external vendor. For corporate bonds, this stress test is configured to calculate the change in value of each fixed income security in the portfolio over one day in seven scenarios, each of which represents a parallel shift of the U.S. Treasury yield curve. The scenarios are shifts of +/-100, +/-200 and +/-300 basis points. For U.S. government securities, the stress test is configured to calculate the change in value of each fixed income security in the portfolio over one day in three scenarios each of which represents a parallel shift of the U.S. Treasury yield curve. The scenarios are shifts of +/-25 basis points.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective, in all material respects, to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the period covered by this report quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting related to our employees working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation to minimize any impact on the design and operating effectiveness of our internal controls.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings disclosed under Part 1, Item 3 of our Annual Report on Form 10-K filed with the SEC on February 28, 2020 except as updated in Note 13 - “Commitments, Contingencies, and Guarantees” to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020.

### ITEM 1A. RISK FACTORS

Except as listed below, there have been no material changes to the risk factors disclosed in under Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 28, 2020.

***The impact of the COVID-19 pandemic and the measures implemented to contain the spread of the virus may have a material adverse impact on our business and results of operations.***

In March 2020, the World Health Organization recognized the outbreak of COVID-19 caused by a novel strain of the coronavirus as a pandemic. The pandemic affects all countries in which we operate. The response of governments and societies to the COVID-19 pandemic, which includes temporary closures of businesses; social distancing; travel restrictions, “shelter in place” and other governmental regulations; and reduced consumer spending due to job losses, has significantly impacted volatility in the financial, commodities and energy markets, and general economic conditions. These measures have negatively impacted businesses, market participants, our counterparties and customers, and the global economy and could continue to do so for a prolonged period of time.

Our net interest income and profitability could be negatively affected by lower benchmark interest rates caused by central banks lowering target benchmark rates in an attempt to buffer their economies from the uncertainties around the COVID-19 pandemic.

A substantial portion of our employees have been impacted by local COVID-19 restrictions and have been working remotely. As a result, any disruption to our information technology systems, including from cyber incidents, could have a material adverse effect on our business. We have taken measures to maintain the health and safety of our employees, but widespread illness could negatively affect staffing levels within certain functions or locations. In addition, our ability to recruit, hire and onboard employees could be negatively impacted by COVID-19 restrictions.

The impact of the COVID-19 pandemic on our future financial results could be significant but currently cannot be quantified, as it will depend on numerous evolving factors that cannot be accurately predicted, including, but not limited to, the duration and spread of the pandemic; its impact on our customers, employees and vendors; governmental regulations in response to the pandemic; and the overall impact of the pandemic on the economy and society, among other factors. Any of these events, alone or in combination with others, could exacerbate many of the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019 and could have a material adverse effect on our business, financial condition and results of operations.

***The expected departure of the United Kingdom from the European Union could negatively impact our business and results of operations***

In March 2017, following a referendum, the United Kingdom (“U.K.”) invoked Article 50 of the Lisbon Treaty thereby notifying the European Union (“E.U.”) of its intention to withdraw from the E.U. The resolution of the terms and conditions of the U.K.’s departure from the E.U., commonly referred to as “Brexit,” has been on-going over the last several years. On January 29, 2020, the European Parliament voted to ratify the Withdrawal Agreement and the U.K. officially left the E.U. at 11:00 p.m. (London time) on Friday, January 31, 2020. The Withdrawal Agreement provides for an 11-month transition period (“Transition Period”). This means that, notwithstanding the U.K.’s exit from the E.U., the majority of E.U. rules and legislation will continue to apply in the U.K. during the Transition Period, which ends on December 31, 2020. We conduct business in the E.U. primarily through our U.K. affiliate, Interactive Brokers (U.K.) Limited (“IBUK”), and through our Luxembourg affiliate, Interactive Brokers Luxembourg SARL (“IBLUX”). We have sought to address Brexit-related risks by, among other things, applying for additional licenses in Europe, through our affiliates Interactive Brokers Ireland Limited (“IBIE”) and Interactive Brokers Central Europe Zrt (“IBCE”). These license applications are pending and it is possible that one or both will still be in progress at December 31, 2020. Depending on the terms of the U.K.’s future relationship with the E.U. and timing, depending on the status of our E.U. pending license applications, depending on other regulatory flexibility and interpretations, and depending on IBLUX’s capacity to carry a larger portion of our E.U. client base, we could be unable to fully service some E.U. customers for some period of time subsequent to the expiration of the Transition Period. Although it is difficult to identify all risks that might arise from a delay in obtaining a license for IBIE, IBCE or both, the risks include potential limitations on our ability to execute position-increasing transactions for existing clients of IBUK and on our ability to open accounts for new E.U. customers. These potential limitations could negatively impact our business in Europe,



and could lead to the loss of clients and revenue from our European business. We currently believe that any delay in our ability to service existing clients or open new accounts would be limited and temporary, but we cannot predict the timing or outcome of our license applications, the possibility of developments based on ongoing discussions between the E.U. and the U.K., or the possibility of relief under national temporary permission regimes in Europe.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Purchases of IBG LLC membership interests, held by Holdings, by the Company are governed by the Amended Exchange Agreement, which was filed on Exhibit 10.1 to the Quarterly Report on Form 10-Q for Quarterly Period Ended September 30, 2015 filed by the Company on November 9, 2015. At the time of the Company's IPO in 2007, three hundred sixty (360) million shares of authorized common stock were reserved for future sales and redemptions.

On an annual basis, each holder of a membership interest may request that the liquefiable portion of that holder's interest be redeemed by Holdings. We expect Holdings to use the net proceeds it receives from such sales to redeem an identical number of Holdings membership interests from the requesting holders.

With the consent of Holdings and the Company (on its own behalf and acting as the sole managing member of IBG LLC), IBG LLC agreed in July 2020 to redeem certain membership interests from Holdings through the sale of common stock and the distribution of the proceeds of such sale to the beneficial owners of such membership interests.

On July 27, 2020, the Company filed a Prospectus Supplement on Form 424B (File Number 333-240121) with the SEC to register up to 990,000 shares of common stock, offering the opportunity for eligible persons to receive awards in the form of an offer to receive such shares by participating in one or more promotions that are designed to attract new customers to the Company's brokerage platform, increase assets held with the Company's brokerage business and enhance customer loyalty.

On August 20, 2020, the Company issued 1,000,000 shares of common stock (with a fair value of \$52 million) to Holdings, for distribution to certain of its members in exchange for membership interests in IBG LLC equal in number to such number of shares of common stock issued by the Company. The acquired shares were distributed in-kind to the members of Holdings who elected to redeem a portion of their Holdings membership interests.

Neither Mr. Thomas Peterffy nor his affiliates elected to redeem any of their Holdings membership interests and therefore have no interest in the proceeds of sale or distribution of the shares of Class A common stock acquired by Holdings on August 20, 2020.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

## **ITEM 5. OTHER INFORMATION**

None

**ITEM 6. Exhibits**

Exhibit Number	Description
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Interactive Brokers Group, Inc. (filed as Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).</a> **
3.2	<a href="#">Amended bylaws of Interactive Brokers Group, Inc. (filed as Exhibit 3.1 to the Form 8-K filed by the Company on February 24, 2016).</a> **
4.1	<a href="#">Description of the Registrant’s Securities.</a>
10.1	<a href="#">Amended and Restated Operating Agreement of IBG LLC (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).</a> **
10.2	<a href="#">Form of Limited Liability Company Operating Agreement of IBG Holdings LLC (filed as Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Company on February 12, 2007).</a> **
10.3	<a href="#">Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG LLC and the Members of IBG LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2009 filed by the Company on November 11, 2009).</a> **
10.4	<a href="#">Tax Receivable Agreement by and between Interactive Brokers Group, Inc. and IBG Holdings LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).</a> **
10.5	<a href="#">Interactive Brokers Group, Inc. 2007 Stock Incentive Plan, as of April 19, 2018 (filed as exhibit 10.9 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2018, filed by the Company on August 8, 2018).</a> **+
10.6	<a href="#">Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan. (filed as Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).</a> **+
10.7	<a href="#">Interactive Brokers Group, Inc. Amendment to the Exchange Agreement (filed as Exhibit 10.1 to the Form 8-K filed by the Company on June 6, 2012).</a> **+
10.8	<a href="#">Second Amendment to Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 31, 2015 filed by the Company on November 9, 2015).</a> **
10.9	<a href="#">First Amendment to Limited Liability Company Agreement of IBG Holdings LLC (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 31, 2015 filed by the Company on November 9, 2015).</a> **
31.1	<a href="#">Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document*
101.SCH	XBRL Extension Schema*
101.CAL	XBRL Extension Calculation Linkbase*
101.DEF	XBRL Extension Definition Linkbase*
101.LAB	XBRL Extension Label Linkbase*
101.PRE	XBRL Extension Presentation Linkbase*
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document.

\*\* Previously filed; incorporated herein by reference.

+ These exhibits relate to management contracts or compensatory plans or arrangements.

\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statement of Changes in Stockholders’ Equity and (v) Notes to the Condensed Consolidated Financial Statements tagged in detail levels 1-4.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERACTIVE BROKERS GROUP, INC.

/s/ PAUL J. BRODY

Name: Paul J. Brody

Title: *Chief Financial Officer, Treasurer and Secretary*  
(Signing both in his capacity as a duly authorized officer  
and as principal financial officer of the registrant)

Date: November 9, 2020

**CERTIFICATION**

I, Milan Galik, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Interactive Brokers Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Milan Galik  
Name: Milan Galik  
Title: Chief Executive Officer and President

Date: November 9, 2020

**CERTIFICATION**

I, Paul J. Brody, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Interactive Brokers Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Paul J. Brody

Name: Paul J. Brody

Title: Chief Financial Officer, Treasurer and Secretary

Date: November 9, 2020

**CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Interactive Brokers Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Milan Galik  
Name: Milan Galik  
Title: Chief Executive Officer and President

Date: November 9, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Interactive Brokers Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Paul J. Brody  
Name: Paul J. Brody  
Title: Chief Financial Officer, Treasurer and Secretary

Date: November 9, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.