

**INTERACTIVE BROKERS LLC  
TWO PICKWICK PLAZA  
GREENWICH, CT 06830**

**Elaine H. Mandelbaum**  
Senior Vice President and General Counsel

April 23, 2020

**MEMORANDUM**

Re: Due Diligence Information for Advisors, Brokers, Hedge Funds and Other Financial Institutions and Intermediaries Using or Considering Interactive Brokers LLC as Prime Broker/Custodian

This memorandum sets forth relevant due diligence information for advisors, brokers, hedge funds and other financial institutions and intermediaries using or considering Interactive Brokers LLC (“IB LLC”) as their prime broker/custodian.

Based on its strong financial position, close regulatory oversight, experienced and financially conservative management, worldwide best execution technology and low cost, IB LLC is increasingly the first choice for prime brokerage and clearing and custody services for global financial advisors, funds, introducing brokers and other investment professionals.

Custodying with IB LLC will also give you the best possible access to our full range of services, including services and pricing options not available to clients who carry their assets elsewhere.

Furthermore, IB LLC is confident in its ability to offer the best possible services even while facing unprecedented challenges, including the ongoing COVID-19 Global Pandemic. IB LLC’s technical infrastructure has remained strong during extraordinary market volatility and increased volume, and its global footprint ensures that the company’s operations may be run from a variety of locations with minimal risk of disruption.

Regulatory Financials and Credit Rating

IB LLC is a subsidiary of Interactive Brokers Group, Inc., a listed public company trading on U.S. markets under the symbol “IBKR” with a market capitalization of *over \$18 billion*.<sup>1</sup>

On a consolidated basis, Interactive Brokers Group exceeds *\$8.1 billion* in equity capital. As of March 31, 2020, IB LLC had regulatory net capital of *over \$5 billion*, and *excess net capital of \$4.8 billion* (i.e., the capital maintained by IB LLC to satisfy its obligations to its clients and

---

<sup>1</sup> Approximately 82% of Interactive Brokers Group is privately held by company management and employees. As a result, the implied market capitalization of Interactive Brokers Group’s publicly traded Class A common shares at March 31, 2020 was approximately \$16.2 billion.

counterparties was \$4.8 billion more than required by our U.S. regulators (the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Commodity Futures Trading Commission (“CFTC”)).

IB LLC is rated “BBB+/Positive/A-2” by Standard & Poor’s. The firm’s global independent auditors are Deloitte & Touche LLP.

#### NYSE Membership and Global Regulatory Oversight

IB LLC is a member of the New York Stock Exchange and has been a registered broker-dealer with the SEC since 1994. IB LLC is currently licensed with and regulated by 21 self-regulatory organizations and 53 U.S. states and territories. Among other agencies, IB LLC is licensed and regulated by the SEC, CFTC, Chicago Mercantile Exchange (“CME”), the U.S. Financial Industry Regulatory Authority (“FINRA”), and the U.S. National Futures Association (“NFA”). IB LLC is also a clearing member of the Options Clearing Corporation, the Depository Trust Company and the National Securities Clearing Corporation, among others. IB LLC and its affiliates provide access to more than *135 electronic exchanges and market centers in 33 countries*.

#### SIPC Membership, Excess SIPC Coverage from Lloyd’s of London, and Segregation and Protection of Assets

IB LLC is a member of the Securities Investor Protection Corporation (“SIPC”) and client assets held with IB LLC are protected by SIPC. Maximum SIPC coverage is \$500,000 (with a cash sublimit of \$250,000). In addition, IB LLC has obtained an excess SIPC insurance policy for the benefit of its clients with certain underwriters at Lloyd’s of London for up to an additional \$30 million (with a cash sublimit of \$900,000) subject to an aggregate limit of \$150 million.

IB LLC is subject to strict “reserve” and “segregation” requirements imposed by the SEC and the CFTC, under which cash in IB LLC client accounts is kept in segregated accounts that are entirely separate from the proprietary assets of IB LLC. IB LLC is required to perform daily calculations to ensure that the proper amount of client funds is set aside in these separate accounts. Under industry-wide rules, some of IB LLC’s regulators even have direct, independent access to monitor IB LLC’s segregated customer bank accounts to ensure that they contain the amounts reported by IB LLC.

Under U.S. law, client stock not held on margin is held in segregated depository accounts at the Depository Trust Company in the U.S. or, outside the U.S., in equivalent “good control locations” under SEC rules.

Under SEC regulations, stock that clients hold on margin can be lent to other financial institutions (for example, to facilitate short selling). These stock loans are at least 100% collateralized by cash from those institutions that is received by IB LLC and then placed in the segregated Reserve Safekeeping Accounts for the exclusive benefit of IB LLC clients.

Margin funds given to IB LLC by clients to margin futures trades or option trades are deposited by IB LLC in segregated client-benefit accounts with the relevant clearinghouses (e.g., The Options Clearing Corporation, CME Clearing, or ICE Clear U.S.), or, for non-U.S. contracts,

with an approved foreign clearinghouse or clearinghouse member. Clearinghouses eliminate direct counterparty risk in futures and options contracts by centralizing clearing and settlement of the contracts so that the clearinghouses (and not the exchange members) guarantee performance on the winning contracts.

The majority of IB LLC client cash is invested in U.S. Treasury securities held for the benefit of clients, including direct investments in short-term Treasury bills and reverse repurchase agreements, where the collateral received is in the form of U.S. Treasury securities. These transactions are conducted with third parties and guaranteed through a central counterparty clearinghouse (Fixed Income Clearing Corp., or “FICC”). The collateral remains in the possession of IB LLC and is also held at a custody bank in a segregated Reserve Safekeeping Account for the exclusive benefit of clients. The remainder of IB LLC client cash is held in segregated accounts designated as exclusively for the benefit of IB LLC customers. These deposits currently are distributed across more than ten banks with investment-grade ratings so that we can avoid a concentration risk with any single institution.

The above system of protections and checks and balances is monitored on a daily, weekly and monthly basis by IB LLC systems and senior management. In addition, IB LLC is audited by its own Internal Audit Department, its independent outside auditors Deloitte & Touche LLP, and at least annually by FINRA, NFA and other self-regulatory organizations.

Note that in the unlikely event that a SIPC member firm fails, customers have special priority over other unsecured creditors in distributions of customer property (unlike in an ordinary bankruptcy). In such an event, SIPC generally steps in immediately and asks a U.S. federal court to appoint a trustee to liquidate the firm and protect its customers. The fact that customer securities and cash are kept in segregated accounts (separate from the broker-dealer’s proprietary positions) facilitates this process. Normally, the trustee will first try to have some or all customer accounts transferred from the failed broker-dealer to another SIPC member broker-dealer. If the trustee is unable to transfer customer accounts, the trustee tries to satisfy claims on an individual basis after the customer files his or her claim with the trustee.

#### Protection for Clients of Advisors, Brokers and Other Financial Intermediaries

The SIPC and client asset protections described above under U.S. law apply to ***all customer assets held with IB LLC***, regardless of the country of origin of the customer. The protections apply to separately managed accounts managed for clients by U.S. and global independent financial advisors and also to fully disclosed customer accounts that are introduced to IB LLC by U.S. and global introducing/correspondent brokers. The protections also apply to non-disclosed and omnibus accounts held with IB LLC that contain assets of customers of an introducing broker (although please note that under U.S. law, *proprietary* assets of introducing brokers are protected under separate rules than *customer* assets of introducing brokers). The protections also apply to all customers and customer assets introduced to IB LLC by its foreign affiliates such as Interactive Brokers (U.K.) Limited.

## Protection From Disruption Through Global Connectivity and Redundancy of Systems and Technology

As part of the Interactive Brokers Group, IB LLC has access to worldwide offices and systems to ensure its ability to serve customers even in the face of global disruptions. Our globally distributed data centers, systems, and employees allow us to provide customers with uninterrupted access to IB LLC's trading platform and account management systems. All of our critical business functions – including automated order routing, execution, clearing, reporting, financial operations and customer service – can be supported by employees in more than one location with access to our global private network that connects our data centers. In addition, to ensure that customer needs are met at all times, critical business functions can be handled remotely in the event that one or more physical offices are impaired or closed entirely.

## IB LLC Senior Management and its Compliance, Legal and Internal Audit Departments

The first broker-dealer in the Interactive Brokers Group was founded 43 years ago by Thomas Peterffy, who remains the Chairman. In 2019, Mr. Peterffy was succeeded as Chief Executive Officer by Milan Galik, who has been with Interactive Brokers Group for 30 years. The senior management of IB LLC holds a substantial majority ownership interest in the business, which is reflected in the financially conservative manner in which the business is managed and operated.

IB LLC has a large and experienced compliance and legal staff. The firm and its affiliates currently employ more than 220 full-time compliance and legal personnel to help IB LLC and its clients follow required rules and regulations. The firm also maintains a robust Internal Audit Department led by its chief audit executive, who has 24 years of experience in the industry.

## Global Scale and Access

IB LLC is among the largest brokerage firms in the United States as measured by Daily Average Revenue Trades. In the first quarter of 2020, the firm conducted an average of 1.4 million trades each day worldwide. IB LLC serves more than 759,000 clients, who keep \$160.7 billion in equity at IB LLC. IB LLC and its affiliates trade on over 135 market centers in 33 countries and provide direct market access to stocks, options, futures, forex, bonds, metals, ETFs and CFDs. The firm allows its clients to maintain funds and conduct trading in 25 currencies.

## Best Execution

IB LLC does not sell its IBKR-Pro order flow to another broker to handle and route.<sup>2</sup> Instead, IB LLC has built a real-time, high-speed Best Execution Order Routing System ("IB SmartRouting<sup>SM</sup>"), which is designed to optimize execution price, speed and total cost of execution for stocks and options. IB LLC constantly changes and enhances the IB SmartRouting<sup>SM</sup> system to adapt to changes in markets, new exchanges, new trading rules, etc. The IB SmartRouting<sup>SM</sup> system continually scans competing market centers and automatically seeks to route orders to the best market, taking into account factors such as quote size, quote

---

<sup>2</sup> IBKR-Lite (our zero-commission offering) order flow is routed to select market makers, from which IBKR receives payment-for-order-flow.

price, exchange or Automated Trading Systems (“ATS”) transaction fees or rebates and the availability of price improvement (execution at a better price than the National Best Bid or Offer (“NBBO”). The IB SmartRouting<sup>SM</sup> system continually reevaluates market conditions and prices for pending IB LLC client orders and dynamically re-routes orders as necessary.

***IB SmartRouting<sup>SM</sup> technology makes institutional-class trading technology available to every customer.*** And IB LLC’s efforts in constantly tuning its SmartRouting<sup>SM</sup> system pay off in the form of price improvement on customer trades. Analysis by IHS Markit, a third-party provider of transaction analysis, determined that in the second half of 2019, IB LLC’s executions of market orders in NMS stocks<sup>3</sup> obtained an average of 45 cents price improvement per 100 shares. But price improvement is only part of the equation – the other key aspect is the customer’s cost of obtaining that execution. **Over the trailing 12 months, customers’ commissions and fees averaged a mere 1 basis point of trade money for trades in NMS stocks.**<sup>4</sup>

### Industry Awards and Recognition

IB LLC has been rated “**#1 - Best Online Broker for 2020**” and a Top Online Broker for ten consecutive years by Barron’s Magazine. Barron’s has also consistently rated IB LLC one of the lowest cost online brokers. IB LLC was also rated as “**Best for International Traders**” and “**Best for Active Traders**” by Barron’s Magazine in 2020.

IB LLC earned 4.5 out of 5 stars “**Overall**” by Stockbrokers.com in 2020. IB LLC was also rated “#1 for “**Commissions & Fees,**” “**Offering of Investments,**” “**International Trading,**” “**Futures Trading,**” “**Innovation**” and “**For Professionals.**”

NerdWallet rated IB LLC as “**Best Broker for Low-Cost Investing**” and “**Best Broker for Stock Trading Platform and Research**” in 2020.

IB LLC was rated “**Best Broker-Dealer Client Service**” and “**Best Futures Trading Broker**” by Fund Intelligence Technology and WSL Awards in 2020.

IB LLC was rated “**Best Broker for Advanced Traders**” and “**Best Broker for International Trading**” by Investopedia in 2020.

Kiplingers rated IB LLC “**Best for Active Traders,**” “**Best for Margin Traders**” and “**Best for Mutual Fund Investors**” in 2019. IB LLC’s Mobile App was also ranked #1.

Benzinga Best Online Brokers rated IB LLC a 4 out of 5 stars and was rated “**Best for Forex Traders,**” “**Best for Professional Traders**” and “**Best for Frequent Traders.**” IB LLC was also rated “**Best Overall**” for 2019 Benzinga Best Online Brokers in Canada and “**Best Overall**” and “**Best Advanced International Traders**” for 2019 Benzinga Best Online Brokers in Australia.

---

<sup>3</sup> *I.e.*, U.S. exchange-listed stocks.

<sup>4</sup> See IBKR’s April 1, 2020 press release discussing March 2020 brokerage metrics, at p.2 (line 6a).

IB LLC was ranked #1 in 2019 for “**Low Commission and Fees,**” “**Mobile Trading Platform/Apps,**” “**Range of Products**” and “**Website Security**” in the Investor’s Business Daily Awards. HFM Technology ranked IB LLC “**#1 Best Application for Mobile/Remote Working**” in 2019.

IB LLC was rated #1 for ‘Professionals’ by ForexBrokers.com in 2019. IB LLC earned a 4 out of 5 stars “**Overall,**” for “**Commissions & Fees,**” “**Platforms & Tools**” and “**Mobile Trading**” and earned 5 out of 5 stars for “**Education.**”

Additional information about awards earned by IB LLC is available on IB LLC’s website.

\* \* \*

The combination of IB LLC’s extremely strong capital position, experienced and financially conservative management, strict regulatory oversight, best execution technology and low cost make IB LLC an excellent choice as a prime broker and custodian for global financial advisors, funds and introducing brokers who want to provide a safe, secure and cost-effective global investment platform for their clients.

Please feel free to contact me with any questions or if you need additional information.

Sincerely,



Elaine H. Mandelbaum  
Senior Vice President and General Counsel  
Interactive Brokers LLC