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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 (IB) as their prime broker/custodian.

Based on its strong financial position, close regulatory oversight, conservative and experienced management, worldwide best execution technology and low cost, Interactive Brokers 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 Interactive Brokers 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.

Regulatory Financials and Credit Rating:

Interactive Brokers LLC, our U.S. broker-dealer, is our largest brokerage firm and carries the accounts of most of our U.S. and global clients. Interactive Brokers also has local brokerage affiliates across the world, including in Hong Kong, Europe, Canada, Japan, Australia and India. IB LLC and its global brokerage affiliates are part of the Interactive Brokers Group, Inc. a publicly traded company listed on the Nasdaq Stock Exchange under the symbol "IBKR" with a market capitalization of ***nearly \$30 billion***.¹

On a consolidated basis, Interactive Brokers Group affiliates exceed ***\$6 billion*** in equity capital. As of January 31, 2017, IB LLC had regulatory net capital of ***over \$3.7 billion USD***, and ***excess net capital of nearly \$3.3 billion*** (*i.e.*, the capital maintained by IB LLC to satisfy its obligations to its clients and counterparties was over \$3.3 billion USD more than required by our U.S. regulators (the U.S. Securities and Exchange Commission

¹ Approximately 85% of IBG is privately held by company management and employees. As a result, the market capitalization of IBG's publicly traded shares is approximately \$4.4 billion.

(SEC) and the U.S. Commodity Futures Trading Commission (CFTC)).

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

NYSE, OCC, DTC, NSCC 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 also a clearing member of the Options Clearing Corporation (OCC), the Depository Trust Company (DTC) and the National Securities Clearing Corporation (NSCC).

IB LLC and/or its affiliates are currently licensed with and regulated by more than 50 regulatory and self-regulatory organizations worldwide (as well as 52 U.S. states and territories), including: the U.S. SEC, CFTC, Financial Industry Regulatory Authority (FINRA) and National Futures Association (NFA), the Hong Kong Securities and Futures Commission (SFC), the U.K. Financial Conduct Authority (FCA), the Investment Industry Regulatory Organization of Canada (IIROC), the Financial Services Agency of Japan (FSA), the Australian Securities and Investments Commission (ASIC) and the Securities and Exchange Board of India (SEBI).

IB LLC and/or its affiliates are members of roughly 120 exchanges, clearinghouses and trading venues worldwide.

SIPC Membership and Excess SIPC Coverage from Lloyd’s of London

Interactive Brokers 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.

Note that in the unlikely event that a SIPC member firm fails, clients have special priority over other unsecured creditors in distributions of client 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 clients. The fact that client securities and cash are kept in segregated accounts separate from the broker-dealers’ proprietary positions (see below) facilitates this process.

Conservative Risk Management and Segregation and Protection of Assets

Daily Segregation of Client Assets: 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 assets of IB LLC. IB LLC determines the amount of cash and securities owed to clients daily and segregates funds for the exclusive benefit of clients, along with a large buffer.

In fact, several years ago Interactive Brokers led the U.S. brokerage industry by seeking and receiving approval from FINRA to perform the reserve computation on a daily basis, instead of once per week. Reconciling our accounts and client reserves daily instead of weekly is just another way that Interactive Brokers seeks to provide state-of-the-art protection for our clients. Note also that under industry-wide rules, some of IB LLC's regulators even have direct, independent access to monitor IB's segregated client bank accounts to ensure that they contain the amounts reported by IB.

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 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 or the CME Clearing House), 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.

Protection of Client Cash and Diversification Across Banks Used by IB for Client Segregated Accounts: As noted, IB LLC client cash is held in segregated accounts designated as exclusively for the benefit of IB LLC clients. IB currently distributes these deposits across more than ten banks with investment-grade ratings so that we can avoid a concentration risk with any single institution. Client cash is also 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 – the Fixed Income Clearing Corp. (FICC). The collateral remains in the possession of IB and is also held at a custody bank in a segregated Reserve Safekeeping Account for the exclusive benefit of clients.

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.

Real-Time Risk Management: Interactive Brokers applies real-time risk margin requirements to client accounts, while most of the rest of the industry applies end-of-day risk margin. If a client is deemed to have insufficient assets to cover the risk of their open positions, IB typically will perform real-time liquidations of their positions to return the

account to margin compliance. Other brokers often permit clients to carry this risk over multiple days.

IB's real-time risk margin requirement and protective liquidations greatly minimize our clients' exposure to losses attributable to other clients' trading, and the risk that client losses pose to IB. Firms that do not impose real-time liquidations, and allow clients to promise to bring in funds at a future date to cover the risk, expose clients to the credit risk of other clients.

No Risk from Bank Affiliation: Brokerage firms affiliated with banks are subject to further supervision by banking regulators, which results in additional uncertainty as to who has rights to the assets in the event of a bankruptcy. Since Interactive Brokers is not a bank, we believe client assets would be returned in a more timely fashion than for bank-owned brokerage firms in the highly unlikely event of an insolvency. Moreover, in a financial crisis scenario, IB's financial resources would be dedicated solely to ensuring the continued smooth operations of our U.S. and global brokerage affiliates. Bank-affiliated broker-dealers, on the other hand, are capitalized by their bank affiliate, and are generally set-up as a subsidiary of a bank holding company. In a financial crisis those brokerage firms are competing with their banking affiliates for capital and liquidity. Lehman Brothers and Bear Stearns are historical examples of entities that removed capital from their brokerage affiliates to try to save the affiliate banks. Indeed, during the height of the financial crisis beginning in 2008, while clients were removing funds and equity from bank-affiliated brokerage firms, those clients were depositing their assets with Interactive Brokers. Because of our strong financial position, client equity and client cash increased by 77% and 65% respectively from November 2008-November 2009.

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

Interactive Brokers Senior Management and its Legal and Compliance and Internal Audit Departments

The first broker-dealer in the Interactive Brokers Group was founded over 40 years ago by Thomas Peterffy, who remains the Chairman and CEO. The senior management of Interactive Brokers holds a substantial majority ownership interest in the business, which is reflected in the conservative manner in which the business is managed and operated.

The average tenure of IB's executive management team is 30-plus years with the company.

Interactive Brokers has a large and experienced compliance staff. The firm and its affiliates currently employ more than 100 full-time compliance and legal personnel to help ensure that IB and its clients are following required rules and regulations. The firm's legal and compliance staff includes executives who have held senior positions at the SEC, the CFTC, FINRA and major U.S. law firms. The firm also maintains a robust Internal Audit Department led by its Chief Audit Executive, who has 20+ years' experience in the industry.

Interactive Brokers' Excellent Disciplinary Record

Interactive Brokers LLC has an excellent disciplinary record. In the past several years, regulators worldwide have been extremely aggressive in bringing regulatory actions and imposing fines on firms in the financial industry even for minor administrative matters. However, IB has had far fewer citations for regulatory violations and has paid many fewer fines than our competitors in the prime brokerage and custody industry²:

Company	FINRA Broker Check Regulatory Violations and Disclosure Events 2010- Present	Approx. Total Fines/Payments
Merrill Lynch, Pierce, Fenner & Smith Incorporated	221	\$737,980,327
Citigroup Global Markets Inc.	185	\$216,078,611.5
J.P. Morgan Securities LLC	155	\$215,164,621.7
UBS Securities LLC	139	\$119,173,747.6
Morgan Stanley & Co. LLC	119	\$157,360,452.5
E*Trade Securities LLC	68	\$9,472,852.86
Wedbush Securities Inc.	54	\$7,856,041.38
TD Ameritrade, Inc.	37	\$13,690,800
Goldman Sachs Execution & Clearing, L.P.	35	\$10,864,250
Interactive Brokers LLC	35	\$3,804,500

² Note that the data provided in this table are estimates provided on a best efforts basis and may be inaccurate or out of date.

Pershing LLC	19	\$4,205,500
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Global Scale and Access

IB LLC is the largest brokerage firms in the United States as measured by Daily Average Revenue Trades, executing roughly one million trades each day worldwide. IB LLC serves more than 496,000 clients, who keep over \$133 billion in equity at IB. As noted above, IB LLC and its affiliates trade on over 120 market centers in 24 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 at least 23 different currencies.

Best Execution

Interactive Brokers does not sell its order flow to another broker to handle and route. Instead, IB has built a real-time, high-speed Best Execution Order Routing System (IB SmartRouting), which is designed to optimize execution price, speed and total cost of execution for stocks and options. IB constantly changes and enhances the SmartRouting system to adapt to changes in markets, new exchanges, new trading rules, etc. IB's SmartRouting system continually scans competing market centers and automatically seeks to route orders to the best market, considering factors such as quote size, quote 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 system continually reevaluates market conditions and prices for pending IB client orders and dynamically re-routes orders as necessary.

The quality of IB's U.S. stock and option executions has outperformed the industry as a whole for at least 9 straight years based on independent measurements by the Transaction Auditing Group, Inc., a third-party provider of transaction analysis. In the most recent period for which data is available, IB client orders received prices 5 cents better per 100 shares than the industry average for U.S. stock orders and 20 cents per contract better for U.S. options than the industry average.

Interactive Brokers is alone in the global brokerage industry in calculating and publishing total cost of execution statistics, which take into account both commissions and fees charged by IB plus execution quality compared to the daily volume weighted average price (*i.e.*, effective spread). For U.S. "Reg NMS" stocks, the ***total execution cost paid by IB clients over the past 12 months was just 0.5 basis point*** (one-half of one-hundredth of one percent) considering commissions and fees plus execution quality compared to VWAP.

Industry Awards and Recognition

IB has been ranked a top online broker by *Barron's Magazine* for the last seven years, and has often been ranked #1.³ In 2016 and 2017, *Barron's* also named IB ***"Best for Frequent Traders,"*** and in 2017 *Barron's* named IB ***"Best for Options Traders."*** *Barron's* has also consistently rated IB one of the ***lowest cost*** online brokers.

IB received multiple honors from the 2018 and 2017 StockBrokers.com Annual Review awards, where it was rated first for ***"Active Trading," "International Trading,"*** and ***"Commissions and Fees."*** IB was ranked #1 in 2018 for ***"Low Commission and Fees"*** in the Investors Business Daily Awards. In 2018, IB won the Canstar Award, earning a 5-star rating for ***"Outstanding Share Trading."***

In 2017, IB was named ***"Best Broker-Dealer Options"*** and ***"Best Broker-Dealer Futures"*** in the *Wall Street Letter* Institutional Awards. IB received similar awards for options and trading from the *Wall Street Letter* Institutional Awards in 2016. In 2015, IB was named ***"Best Prime Broker for Startups"*** in the *Hedge Fund Manager Magazine* U.S. Hedge Fund Services Awards.

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The combination of Interactive Brokers' extremely strong capital position, experienced and cautious management, strict regulatory oversight, best execution technology and low cost make IB 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,



David M. Battan

³ As of the date of this letter, *Barron's* 2018 rankings had not been released.