Interactive Brokers Group, Inc.
Form 10-Q
November 07, 2018

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, 2018

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	30 0390693
(State or other jurisdiction of incorporation or organization)	(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit 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

As of November 7, 2018, there were 75,097,440 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.

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QUARTERLY REPORT ON FORM 10 Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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PART 1. 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, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 3,062	$ 1,732
Cash - segregated for regulatory purposes	7,523	6,547
Securities - segregated for regulatory purposes	12,832	13,685
Securities borrowed	3,551	2,957
Securities purchased under agreements to resell	331	2,035
Financial instruments owned, at fair value:		
Financial instruments owned	2,276	1,950
Financial instruments owned and pledged as collateral	312	1,204
Total financial instruments owned, at fair value	2,588	3,154
Receivables		
Customers, less allowance for doubtful accounts of $41 and $40 as of September 30, 2018 and December 31, 2017	30,913	29,821
Brokers, dealers and clearing organizations	846	823
Interest	117	116
Total receivables	31,876	30,760

Other assets	299	292
Total assets	$ 62,062	$ 61,162
Liabilities and equity		
Short-term borrowings	$ 28	$ 15
Securities loaned	3,834	4,444
Securities sold under agreements to repurchase	—	1,316
Financial instruments sold, but not yet purchased, at fair value	915	767
Payables		
Customers	49,823	47,548
Brokers, dealers and clearing organizations	179	283
Affiliate	171	187
Accounts payable, accrued expenses and other liabilities	174	147
Interest	35	22
Total payables	50,382	48,187
Total liabilities	55,159	54,729
Commitments, contingencies and guarantees (see Note 12)		
Equity		
Stockholders’ equity		
Common stock, $0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 75,226,888 and 71,609,049 shares, Outstanding – 75,097,440 and 71,475,755 shares as of September 30, 2018 and December 31, 2017	1	1
Class B – Authorized, Issued and Outstanding – 100 shares as of September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	895	832
Retained earnings	354	251
Accumulated other comprehensive income, net of income taxes of $0 and $1 as of September 30, 2018 and December 31, 2017	(4)	9
Treasury stock, at cost, 129,448 and 133,294 shares as of September 30, 2018 and December 31, 2017	(3)	(3)
Total stockholders’ equity	1,243	1,090
Noncontrolling interests	5,660	5,343
Total equity	6,903	6,433
Total liabilities and equity	$ 62,062	$ 61,162

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except share or per share amounts)	2018	2017	2018	2017
Revenues				
Commissions	$ 167	$ 163	572	477
Interest income	363	243	1,007	626
Trading gains	7	11	32	26
Other income	21	70	121	205
Total revenues	558	487	1,732	1,334
Interest expense	119	61	321	147
Total net revenues	439	426	1,411	1,187
Non-interest expenses				
Execution, clearing and distribution fees	57	61	196	185
Employee compensation and benefits	63	64	201	192
Occupancy, depreciation and amortization	12	11	35	34
Communications	7	7	20	22
General and administrative	25	15	70	67
Customer bad debt	(1)	—	2	2
Total non-interest expenses	163	158	524	502
Income before income taxes	276	268	887	685
Income tax expense	18	21	52	56
Net income	258	247	835	629
Less net income attributable to noncontrolling interests	219	216	709	551
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Earnings per share				
Basic	$ 0.52	$ 0.44	$ 1.73	$ 1.12
Diluted	$ 0.51	$ 0.43	$ 1.71	$ 1.10
Weighted average common shares outstanding				
Basic	74,649,469	71,109,577	72,879,007	69,405,624
Diluted	75,360,089	71,973,483	73,745,640	70,409,619

Comprehensive income				
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Other comprehensive income				
Cumulative translation adjustment, before income taxes	(1)	1	(14)	11
Income taxes related to items of other comprehensive income	—	—	(1)	—
Other comprehensive income (loss), net of tax	(1)	1	(13)	11
Comprehensive income available for common stockholders	$ 38	$ 32	$ 113	$ 89
Comprehensive income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests	$ 219	$ 216	$ 709	$ 551
Other comprehensive income - cumulative translation adjustment	(2)	5	(60)	55
Comprehensive income attributable to noncontrolling interests	$ 217	$ 221	$ 649	$ 606

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$ 835	$ 629
Adjustments to reconcile net income to net cash from operating activities		
Deferred income taxes	19	23
Depreciation and amortization	18	18
Employee stock plan compensation	42	38
Unrealized (gain) loss on other investments, net	—	(3)
Bad debt expense	2	2
Impairment loss	1	21
Change in operating assets and liabilities		
Securities - segregated for regulatory purposes	853	2,373
Securities borrowed	(594)	(566)
Securities purchased under agreements to resell	1,704	(478)
Financial instruments owned, at fair value	567	1,459
Receivables from customers	(1,094)	(5,926)
Other receivables	(24)	(14)
Other assets	7	(1)
Securities loaned	(610)	(161)
Securities sold under agreement to repurchase	(1,316)	—
Financial instruments sold, but not yet purchased, at fair value	148	(968)
Payable to customers	2,275	5,819
Other payables	(69)	30
Net cash provided by operating activities	2,764	2,295
Cash flows from investing activities		
Purchases of other investments	(21)	—
Distributions received and proceeds from sales of other investments	1	2
Purchase of property, equipment and intangible assets	(23)	(16)
Net cash used in investing activities	(43)	(14)
Cash flows from financing activities		
Short-term borrowings, net	13	(36)
Dividends paid to stockholders	(22)	(21)
Distributions from IBG LLC to noncontrolling interests	(299)	(222)

Repurchases of common stock for employee tax withholdings under stock incentive plans	(45)	(21)
Proceeds from the sale of treasury stock	40	21
Payments made under the Tax Receivable Agreement	(28)	(15)
Net cash used in financing activities	(341)	(294)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(74)	66
Net increase in cash, cash equivalents, and restricted cash	2,306	2,053
Cash, cash equivalents, and restricted cash at beginning of period	8,279	7,549
Cash, cash equivalents, and restricted cash at end of period	$ 10,585	$ 9,602
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents	3,062	2,056
Cash segregated for regulatory purposes	7,523	7,546
Cash, cash equivalents, and restricted cash at end of period	$ 10,585	$ 9,602
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 308	$ 136
Cash paid for taxes, net	$ 35	$ 31
Non-cash financing activities		
Issuance of common stock in exchange of member interests in IBG LLC	$ 94	$ 49
Redemption of member interests from IBG Holdings LLC	$ (94)	$ (49)
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	$ 28	$ 28
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	$ (28)	$ (28)
Non-cash distributions to noncontrolling interests	$ (11)	$ —

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

Nine Months Ended September 30, 2018 and 2017

(Unaudited)

(in millions, except share amounts)	Common Stock Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance, January 1, 2018	71,609,049	$ 1	$ 832	$ (3)	$ 251	$ 9	$ 1,090	$ 5,343	$ 6,433
Issuance of common stock in follow-on offering	1,537,727		25				25	(25)	—
Common stock distributed pursuant to stock incentive plans	2,080,112						—		—
Compensation for stock grants vesting in the future			7				7	35	42
Deferred tax benefit retained - follow-on offering			3				3		3
Repurchases of common stock for employee tax withholdings under stock incentive plans				(45)			(45)		(45)
Sales of treasury stock				45	(1)		44	(4)	40
Dividends paid to stockholders					(22)		(22)		(22)
Distributions from IBG LLC to							—	(310)	(310)

noncontrolling interests									
Adjustments for changes in proportionate ownership in IBG LLC			28				28	(28)	—
Comprehensive income					126	(13)	113	649	762
Balance, September 30, 2018	75,226,888	$ 1	$ 895	$ (3)	$ 354	$ (4)	$ 1,243	$ 5,660	$ 6,903

	Common Stock					Accumulated			
			Additional			Other	Total	Non-	
	Issued	Par	Paid-In	Treasury	Retained	Comprehensive	Stockholders'	controlling	Total
(in millions, except share amounts)	Shares	Value	Capital	Stock	Earnings	Income	Equity	Interests	Equity
Balance, January 1, 2017	68,119,412	$ 1	$ 775	$ (3)	$ 203	$ (2)	$ 974	$ 4,846	$ 5,820
Issuance of common stock in follow-on offering	1,214,860		18				18	(18)	—
Common stock distributed pursuant to stock incentive plans	2,272,763						—		—
Compensation for stock grants vesting in the future			6				6	32	38
Deferred tax benefit retained - follow-on offering			2				2		2
Repurchases of common stock for employee tax withholdings under stock incentive plans				(21)			(21)		(21)
Sales of treasury stock				21			21		21
Dividends paid to stockholders					(21)		(21)		(21)
Distributions from IBG LLC to noncontrolling interests							—	(222)	(222)
Adjustments for changes in proportionate ownership in IBG LLC			28				28	(28)	—

Comprehensive income					78	11	89	606	695
Balance, September 30, 2017	71,607,035	$ 1	$ 829	$ (3)	$ 260	$ 9	$ 1,096	$ 5,216	$ 6,312

See accompanying notes to the condensed consolidated financial statements.

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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 18.1% 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 securities, futures, foreign exchange instruments, bonds and mutual funds on more than 120 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, Switzerland, India, China (Hong Kong and Shanghai), Japan, and Australia. As of September 30, 2018, the Company had 1,380 employees worldwide.

IBG LLC is a Connecticut limited liability company that conducts its business through its operating subsidiaries (collectively, the “Operating Companies”): Interactive Brokers LLC (“IB LLC”); Interactive Brokers (India) Private Limited (“IBI”); Timber Hill LLC (“TH LLC”); Timber Hill Canada Company (“THC”); Interactive Brokers Software Services (India) Private Limited (“IBSSI”); IB Global Investments LLC (“IBGIL”); IB Exchange Corp. (“IBEC”) and its subsidiaries, Interactive Brokers Canada Inc. (“IBC”), Interactive Brokers (U.K.) Limited and its subsidiary, Interactive Brokers (U.K.) Nominee Limited (collectively, “IBUK”), Interactive Brokers Securities Japan, Inc. (“IBSJ”), Interactive Brokers Hong Kong Limited (“IBHK”), Interactive Brokers Australia Pty Limited and its subsidiary, Interactive Brokers Australia Nominees Pty Limited (collectively, “IBA”), IB Business Services (Shanghai) Company Limited (“IBBSS”), IBKR Financial Services AG (formerly Timber Hill Europe AG) and its subsidiary, THLI AG (formerly Timber Hill (Liechtenstein) AG) (collectively, “IBKRFS”), Interactive Brokers Hungary KFT (“IBH”), Interactive Brokers Software Services Estonia OU (“IBEST”), Interactive Brokers Software Services Russia (“IBRUS”), Interactive Brokers Corp. (“IB Corp”), Covestor, Inc. and its subsidiary, Covestor Limited (collectively, “Covestor”), and Greenwich Advisor Compliance Services Corp. (“Greenwich Compliance”).

The Company operates in two business segments: electronic brokerage and market making, both supported by corporate. The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide. The Company conducts its market making business principally through its Timber Hill subsidiaries and it currently consists of customer facilitation in products such as CFDs, ETFs and single stock futures, as well as exchange traded market making activities in a few select markets outside the U.S. (See Note 2 – Discontinued Operations and Costs Associated with Exit or Disposal Activities). Corporate enables the Company to operate cohesively and effectively by providing support via development services and control functions to the business segments and also by executing the Company’s currency diversification strategy.

Certain of the Operating Companies 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 14). IB LLC, IBC, IBUK, IBSJ, IBHK, IBI 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 2017 Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018. The condensed consolidated financial information as of December 31, 2017 has been derived from the audited consolidated 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.

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 Cash Flows and Financial Condition Presentation Changes

On January 1, 2018, the Company adopted FASB Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash" ("ASU 2016-18"). This accounting update requires an entity to include in its cash and cash equivalents amounts that are deemed to be restricted cash and to present a reconciliation of such amounts in the statement of cash flows. Restricted cash represents cash and cash equivalents that are subject to withdrawal or usage restrictions. For purposes of the condensed consolidated statements of cash flows, cash, cash equivalents, and restricted cash consist of "cash and cash equivalents" and "cash – segregated for regulatory purposes."

ASU 2016-18 also requires prior periods to be retrospectively adjusted to conform to the current period presentation. Upon adoption, the Company recorded an increase of $1,922 million in net cash provided by operating activities, for the nine months ended September 30, 2017 to reflect the reclassification of changes in restricted cash balances from the operating section to the cash, cash equivalent, and restricted cash balances within the condensed consolidated statements of cash flows.

In addition, the Company reclassified restricted cash amounts previously included within "cash and securities – segregated for regulatory purposes" into a separate line item, "cash – segregated for regulatory purposes," in the condensed consolidated statements of financial condition to be consistent with the presentation of restricted cash in the condensed consolidated statements of cash flows under ASU 2016-18. Previously reported amounts in the condensed consolidated statements of financial condition and notes to the condensed consolidated financial statements have been adjusted to conform to the current presentation.

Discontinued Operations and Costs Associated with Exit or Disposal Activities

On March 8, 2017, the Company announced its intention to discontinue its options market making activities globally. Additionally, as previously announced, on September 29, 2017 the Company completed the transfer of its U.S. options market making operations to Two Sigma Securities, LLC. The Company also exited the majority of its market making activities outside of the U.S. by December 31, 2017 and expects to report discontinued operations when it meets the criteria under FASB Topic ASC 205-20, "Discontinued Operations."

The Company recognized approximately $25 million in one-time restructuring costs during the year ended December 31, 2017. The one-time restructuring costs included approximately $22 million of non-cash expenditures, consisting of impairment of the carrying value of certain exchange trading rights and stock-based compensation and $3 million of cash expenditures primarily related to severance costs for employee terminations.

During the nine months ended September 30, 2018, the Company did not incur any additional restructuring costs. During the nine months ended September 30, 2017, the Company recorded restructuring costs of approximately $21 million for the impairment of exchange trading rights, included in general and administrative expenses and approximately $3 million in severance costs resulting from obligations related to employment terminations, included in employee compensation and benefits in the condensed consolidated statements of comprehensive income.

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 doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, costs associated with exit or disposal activities, and contingency reserves.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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.

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 the 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 dilutive potential common shares.

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 condensed 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.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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.

Cash and Securities - Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies 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. Securities segregated for regulatory purposes consisted of U.S. government securities of $4.1 billion and $4.5 billion as of September 30, 2018 and December 31, 2017, respectively, and securities purchased under agreements to resell in the amount of $8.7 billion and $9.2 billion as of September 30, 2018 and December 31, 2017, respectively, which amounts approximate fair value.

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. It is the Company’s policy 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. It is the Company’s policy 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.

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").

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Investments

The Company makes certain strategic investments related to its business and accounts for these investments (a) under the equity method of accounting as required under FASB ASC Topic 323, “Investments - Equity Method and Joint Ventures” or (b) at fair value or, if the investment in equity securities does not have a readily determinable fair value, at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer in accordance with FASB ASC Topic 321, “Investments in Equity Securities.”

Investments accounted for under the equity method, 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. The Company’s share of the income or losses from equity method investments is included in other income in the condensed consolidated statements of comprehensive income. The recorded amounts of the Company’s equity method investments of $23 million as of September 30, 2018 and December 31, 2017, respectively, which are included in other assets in the condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity method investees are recorded as additions or reductions, respectively, to the respective investment balance.

Investments in equity securities that do not qualify for equity method accounting and do not have readily determinable fair values are recorded at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The recorded amounts of the Company’s investments in such equity securities of $26 million and $5 million as of September 30, 2018 and December 31, 2017, respectively, are included in other assets in the condensed consolidated statements of financial condition. Dividends received from these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

The Company also holds exchange memberships and investments in equity securities of certain exchanges, as required to qualify as a clearing member. Such investments of $5 million and $6 million as of September 30, 2018 and December 31, 2017, respectively, are recorded at cost less impairment, and are included in other assets in the condensed consolidated statements of financial condition. Dividends received from these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

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. 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.

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, equipment and acquired technology.

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 on an annual basis.

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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. During the three months ended June 30, 2018, the Company liquidated its Australian subsidiary, Timber Hill Australia Pty Limited, and accordingly reclassified the accumulated OCI of $32 million to other income and the related accumulated tax effect of $1 million to income tax expense in the condensed consolidated statements of comprehensive income.

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. 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.

Trading Gains

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains and losses are comprised of changes in the fair value of financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value (i.e., unrealized gains and losses) and realized gains and losses related to the

Company's market making business segment. Included in trading gains are net gains and losses on stocks, U.S. and foreign government securities, options, futures, foreign exchange and other derivative instruments. Dividends are integral to the valuation of stocks and interest is integral to the valuation of fixed income instruments. Accordingly, both dividends and interest income and expense attributable to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, held for market making purposes, are reported on a net basis in trading gains in the condensed consolidated statements of comprehensive income.

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 related to the market making core-business activities are reported in trading gains; (c) foreign currency gains and losses arising from currency swap transactions in the electronic brokerage business are reported in interest income; and (d) 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 order flow in 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.

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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. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, significantly revising the U.S corporate income tax law by, among other things, reducing the corporate income tax rate from 35% to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries (see Note 11).

The Company records tax liabilities in accordance with ASC Topic 740 and adjusts 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.

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.

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Recently Issued Accounting Pronouncements

Following is a summary of recently issued FASB Accounting Standards Updates ("ASUs") that have affected or may affect the Company's condensed consolidated financial statements:

	Affects	Status
ASU 2016-02	Leases (Topic 842): Requires the recognition of a right-of-use asset and a lease liability for leases previously classified as operating lease in the statements of financial condition.	Effective for fiscal years beginning after December 15, 2018.
ASU 2016-13	Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-04	Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-08	Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Amending the amortization period for certain purchased callable debt securities held at a premium.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-11	Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815): changing the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-02	Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.	Effective for fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018-03	Technical Correction and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.	Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years beginning after June 15, 2018.
ASU 2018-07	Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

ASU 2018-08	Not for Profit Entities (Topic 958) and Other Expenses - Contributions (Topic 720): Clarifying the Scope and the Accounting for Contributions Received and Contributions Made.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-10	Leases (Topic 842): Codification Improvements.	Effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods.
ASU 2018-11	Leases (Topic 842): Targeted Improvements.	Effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods.
ASU 2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.

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Adoption of the ASUs that became effective during 2017 and 2018, prior to the issuance of the Company's condensed consolidated financial statements, had no material effect on these financial statements, except as described in the notes to these financial statements.

ASU 2016-01, "Leases (Topic 842)" is effective for the Company in January 2019 and will be implemented under the "prospective" transitional method prescribed in ASU 2018-11, "Leases (Topic 842) – Targeted Improvements". The Company's implementation efforts include reviewing the terms of existing leases and service contracts, which may include embedded leases. Based on the implementation efforts to date, the Company expects a gross up on its consolidated statements of financial condition upon recognition of the right-of-use assets and lease liabilities but does not expect the amount of the gross up to have a material impact on its consolidated statements financial condition.

3. Trading Activities and Related Risks

The Company's trading activities include providing securities brokerage and market making services. 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, 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. As a global electronic broker and market maker trading on exchanges around the world in multiple currencies, the Company is exposed to foreign currency risk. The Company actively manages its currency exposure using a currency diversification strategy that is based on a defined basket of 14 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.

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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/or by entering into interest rate futures contracts.

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 in that substantially all of the contracts entered into are settled directly at securities and commodities clearing houses and a small portion is settled through member firms and banks with substantial financial and operational resources. 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, 2018, 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.

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The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of September 30, 2018.

	IBG, Inc.	Holdings	Total
Ownership %	18.1%	81.9%	100.0%
Membership interests	75,097,443	338,691,717	413,789,160

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, 2018 and December 31, 2017, 1,000,000,000 shares of Class A common stock were authorized, of which 75,226,888 and 71,609,049 shares have been issued; and 75,097,440 and 71,475,755 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, 2018 and December 31, 2017, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the unamortized balance of these deferred tax assets was $145 million and $146 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, 2018 were $501 million, $426 million, and $75 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 $159 million through September 30, 2018 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 2017, IBG, Inc. issued 13,858,355 shares of common stock (with a fair value of $410 million) directly to Holdings in exchange for an equivalent number of member interests in IBG LLC.

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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 18.1%, with Holdings owning the remaining 81.9% as of September 30, 2018. 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, 2018.

On July 27, 2018, the Company filed a Prospectus Supplement on Form 424B5 (File Number 333-219552) with the SEC to issue 1,537,727, shares of common stock (with a fair value of $94 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 17.8% to 18.1%.

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,	
	2018	2017	2018	2017
	(in millions, except share or per share amounts)			
Basic earnings per share				
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Weighted average shares of common stock outstanding				
Class A	74,649,369	71,109,477	72,878,907	69,405,524
Class B	100	100	100	100
	74,649,469	71,109,577	72,879,007	69,405,624
Basic earnings per share	$ 0.52	$ 0.44	$ 1.73	$ 1.12

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,	
	2018	2017	2018	2017
	(in millions, except share or per share amounts)			
Diluted earnings per share				
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Weighted average shares of common stock outstanding				
Class A				
Issued and outstanding	74,649,369	71,109,477	72,878,907	69,405,524
Potentially dilutive common shares				
Issuable pursuant to employee stock incentive plans	710,620	863,906	866,633	1,003,995
Class B	100	100	100	100
	75,360,089	71,973,483	73,745,640	70,409,619
Diluted earnings per share	$ 0.51	$ 0.43	$ 1.71	$ 1.10

Member Distributions and Stockholder Dividends

During the nine months ended September 30, 2018, IBG LLC made distributions totaling $376 million, to its members, of which IBG, Inc.'s proportionate share was $66 million. In March, June and September 2018, the Company paid quarterly cash dividends of $0.10 per share of common stock, totaling $7 million, $7 million and $8 million respectively.

On October 16, 2018, the Company declared a cash dividend of $0.10 per common share, payable on December 14, 2018 to stockholders of record as of November 30, 2018.

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5. Comprehensive Income

The following table presents comprehensive income and earnings per share on comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except share or per share amounts)			
Comprehensive income available for common stockholders	$ 38	$ 32	$ 113	$ 89
Earnings per share on comprehensive income				
Basic	$ 0.51	$ 0.45	$ 1.55	$ 1.28
Diluted	$ 0.50	$ 0.44	$ 1.54	$ 1.26
Weighted average common shares outstanding				
Basic	74,649,469	71,109,577	72,879,007	69,405,624
Diluted	75,360,089	71,973,483	73,745,640	70,409,619

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6. Financial Assets and Financial Liabilities

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

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017. 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.

	Financial Assets At Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	$ 4,098	$ —	$ —	$ 4,098
Financial instruments owned, at fair value				
Stocks	632	—	1	633
Options	1,720	—	—	1,720
Warrants	—	—	—	—
U.S. and foreign government securities	230	—	—	230
Corporate and municipal bonds	—	2	3	5
Currency forward contracts	—	—	—	—
Total financial instruments owned, at fair value	2,582	2	4	2,588
Total financial assets at fair value	$ 6,680	$ 2	$ 4	$ 6,686

Financial Liabilities At Fair Value as of September 30, 2018			
Level 1	Level 2	Level 3	Total

	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	$ 215	$ —	$ —	$ 215
Options	689	—	—	689
Currency forward contracts	—	11	—	11
Total financial instruments sold, but not yet purchased, at fair value	904	11	—	915
Total financial liabilities at fair value	$ 904	$ 11	$ —	$ 915

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	Financial Assets At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	$ 4,519	$ —	$ —	$ 4,519
Financial instruments owned, at fair value				
Stocks	2,000	—	1	2,001
Options	1,052	—	—	1,052
Warrants	5	—	—	5
U.S. and foreign government securities	60	—	—	60
Corporate and municipal bonds	—	1	3	4
Currency forward contracts	—	32	—	32
Total financial instruments owned, at fair value	3,117	33	4	3,154
Total financial assets at fair value	$ 7,636	$ 33	$ 4	$ 7,673

	Financial Liabilities At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	$ 302	$ —	$ —	$ 302
Options	464	—	—	464
Currency forward contracts	—	1	—	1
Total financial instruments sold, but not yet purchased, at fair value	766	1	—	767
Total financial liabilities at fair value	$ 766	$ 1	$ —	$ 767

Transfers between Level 1 and Level 2

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period. During the nine months ended September 30, 2018 and 2017, there were no transfers between levels for financial assets and liabilities, at fair value, respectively.

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, 2018, Level 3 financial assets included $1 million in stocks and $3 million in corporate and municipal bonds, which were not traded in active markets and were valued by the Company based on internal estimates. During the nine months ended September 30, 2018 and 2017, there were no transfers between levels for financial assets and liabilities, at fair value, respectively.

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Trading Gains from Market Making Transactions

Trading gains and losses from market making transactions reported in the condensed consolidated statements of comprehensive income, by major product type, are comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Equities	$ 7	$ 9	$ 32	$ 29
Foreign exchange	—	2	—	(3)
Total trading gains, net	$ 7	$ 11	$ 32	$ 26

These transactions are related to the Company’s financial instruments owned and financial instruments sold, but not yet purchased, at fair value and include both derivative and non derivative financial instruments, including exchange traded options and futures. These gains and losses also include market making related dividend income and expense.

Financial Assets and Liabilities Not Measured at Fair Value

The following tables 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. The following table excludes certain financial instruments such as equity investments and all non-financial assets and liabilities:

	September 30, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3

	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	$ 3,062	$ 3,062	$ 3,062	$ —	$ —
Cash - segregated for regulatory purposes	7,523	7,523	7,523	—	—
Securities - segregated for regulatory purposes	8,734	8,734	—	8,734	—
Securities borrowed	3,551	3,551	—	3,551	—
Securities purchased under agreements to resell	331	331	—	331	—
Receivables from customer	30,913	30,913	—	30,913	—
Receivables from broker, dealers, and clearing organizations	846	846	—	846	—
Interest receivable	117	117	—	117	—
Other assets	5	6	—	6	—
Total financial assets, not measured at fair value	$ 55,082	$ 55,083	$ 10,585	$ 44,498	$ —

Financial liabilities, not measured at fair value					
Short-term borrowings	$ 28	$ 28	$ —	$ 28	$ —
Securities loaned	3,834	3,834	—	3,834	—
Securities sold under agreements to repurchase	—	—	—	—	—
Payables to customer	49,823	49,823	—	49,823	—
Payables to brokers, dealers and clearing organizations	179	179	—	179	—
Interest payable	35	35	—	35	—
Total financial liabilities, not measured at fair value	$ 53,899	$ 53,899	$ —	$ 53,899	$ —

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	December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	$ 1,732	$ 1,732	$ 1,732	$ —	$ —
Cash - segregated for regulatory purposes	6,547	6,547	6,547	—	—
Securities - segregated for regulatory purposes	9,166	9,166	—	9,166	—
Securities borrowed	2,957	2,957	—	2,957	—
Securities purchased under agreements to resell	2,035	2,035	—	2,035	—
Receivables from customer	29,821	29,821	—	29,821	—
Receivables from broker, dealers, and clearing organizations	823	823	—	823	—
Interest receivable	116	116	—	116	—
Other assets	6	6	—	6	—
Total financial assets, not measured at fair value	$ 53,203	$ 53,203	$ 8,279	$ 44,924	$ —

Financial liabilities, not measured at fair value					
Short-term borrowings	$ 15	$ 15	$ —	$ 15	$ —
Securities loaned	4,444	4,444	—	4,444	—
Securities sold under agreements to repurchase	1,316	1,316	—	1,316	—
Payables to customer	47,548	47,548	—	47,548	—
Payables to brokers, dealers and clearing organizations	283	283	—	283	—
Interest payable	22	22	—	22	—
Total financial liabilities, not measured at fair value	$ 53,628	$ 53,628	$ —	$ 53,628	$ —

Netting of Financial Assets and Financial Liabilities

It is the Company's policy 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.

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The following tables set forth the netting of financial assets and of financial liabilities as of September 30, 2018 and December 31, 2017:

	September 30, 2018				
	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Condensed Consolidated Statement of Financial Condition 2	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	$ 8,734 1	$ —	$ 8,734	$ (8,734)	$ —
Securities borrowed	3,551	—	3,551	(3,375)	176
Securities purchased under agreements to resell	331	—	331	(331)	—
Financial instruments owned, at fair value					
Options	1,720	—	1,720	(677)	1,043
Warrants	—	—	—	—	—
Currency forward contracts	—	—	—	—	—
Total	$ 14,336	$ —	$ 14,336	$ (13,117)	$ 1,219

	(in millions)				
Offsetting of financial liabilities					
Securities loaned	$ 3,834	$ —	$ 3,834	$ (3,582)	$ 252
Securities sold under agreements to repurchase	—	—	—	—	—

Financial instruments sold, but not yet purchased, at fair value					
Options	689	—	689	(677)	12
Warrants	—	—	—	—	—
Currency forward contracts	11	—	11	—	11
Total	$ 4,534	$ —	$ 4,534	$ (4,259)	$ 275

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	December 31, 2017				
	Gross Amounts of Financial Assets and Liabilities Recognized	Amounts Offset in the Condensed Consolidated Statement of Financial Condition [2]	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	$ 9,166 [1]	$ —	$ 9,166	$ (9,166)	$ —
Securities borrowed	2,957	—	2,957	(2,822)	135
Securities purchased under agreements to resell	2,035	—	2,035	(2,035)	—
Financial instruments owned, at fair value					
Options	1,052	—	1,052	(451)	601
Warrants	5	—	5	—	5
Currency forward contracts	32	—	32	—	32
Total	$ 15,247	$ —	$ 15,247	$ (14,474)	$ 773

	(in millions)				
Offsetting of financial liabilities					
Securities loaned	$ 4,444	$ —	$ 4,444	$ (4,201)	$ 243
Securities sold under agreements to repurchase	1,316	—	1,316	(1,316)	—
Financial instruments sold, but not yet purchased, at fair value					

Options	464	—	464	(451)	13
Warrants	—	—	—	—	—
Currency forward contracts	1	—	1	—	1
Total	$ 6,225	$ —	$ 6,225	$ (5,968)	$ 257

(1) As of September 30, 2018 and December 31, 2017, the Company had $8.7 billion and $9.2 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, 2018 and December 31, 2017.

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Secured Financing Transactions – Maturities and Collateral Pledged

The following tables present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of September 30, 2018 and December 31, 2017:

	September 30, 2018				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 – 90 days	Over 90 days	Total
	(in millions)				
Securities loaned					
Stocks	$ 3,789	$ -	$ -	$ -	$ 3,789
Corporate bonds	45	-	-	-	45
Foreign government securities	-	-	-	-	-
Total securities loaned	$ 3,834	$ -	$ -	$ -	$ 3,834

	December 31, 2017				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 – 90 days	Over 90 days	Total
	(in millions)				
Securities loaned					
Stocks	$ 4,389	$ -	$ -	$ -	$ 4,389
Corporate bonds	55	-	-	-	55
Total securities loaned	4,444	-	-	-	4,444
Securities sold under agreements to repurchase					
U.S. government securities	1,316	-	-	-	1,316
Total	$ 5,760	$ -	$ -	$ -	$ 5,760

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

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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, 2018 and December 31, 2017, approximately $30.9 billion and $29.8 billion, respectively, of customer margin loans were outstanding.

The following table summarizes the amounts related to collateralized transactions as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
	(in millions)			
Securities lending transactions	$ 24,153	$ 3,588	$ 23,662	$ 3,041
Securities purchased under agreements to resell transactions (1)	9,066	8,965	11,231	11,231
Customer margin assets	32,556	8,902	30,236	9,013
	$ 65,775	$ 21,455	$ 65,129	$ 23,285

(1) As of September 30, 2018, $8.7 billion or 97% (as of December 31, 2017, $9.2 billion or 82%) 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, 2018 and December 31, 2017, the majority of the Company's U.S. and foreign government securities owned were pledged to clearing organizations.

Financial instruments owned and pledged as collateral, including amounts pledged to affiliates, where the counterparty has the right to repledge, as of September 30, 2018 and December 31, 2017 are presented in the following table:

	September 30, 2018	December 31, 2017
	(in millions)	
Stocks	$ 120	$ 1,150
U.S. and foreign government securities	192	54
	$ 312	$ 1,204

8. Revenues from Contracts with Customers

Adoption

On January 1, 2018, the Company adopted ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASC Topic 606”) using the modified retrospective method (i.e., applied prospectively effective January 1, 2018 without revising prior periods), which had no impact on the Company’s opening retained earnings.

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.

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Nature of Services

The Company's services under contracts with customers are mainly related to its electronic brokerage business. 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. The Company recognizes revenue at the time of execution of the order (i.e., trade date). Commissions are generally collected from cleared customers on trade date and from non-cleared customers monthly.

- Market data fees are charged to customers for market data services to which they subscribe, that are delivered by the Company. The Company recognizes revenue monthly and collects the fees 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 and collects the fees 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. 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 and collects the fees monthly, in arrears.

The Company's electronic brokerage business also earns revenues from other services, including order cancelation or modification fees, position transfer fees, telecommunications fees, withdrawal fees, and bank sweep program fees, among others.

Disaggregation of Revenue

The following table sets forth revenue from contracts with customers by business segment, geographic location, and major types of services for the three months and nine months ended September 30, 2018, as follows:

	Three Months Ended September 30, 2018			
	Electronic brokerage	Market making	Corporate	Total
	(in millions)			
Geographic location 1				
United States	$ 144	$ 1	$ -	$ 145
International	59	-	-	59
	$ 203	$ 1	$ -	$ 204
Major types of services				
Commissions	$ 167	$ -	$ -	$ 167
Market data fees 2	12	-	-	12
Risk exposure fees 2	5	-	-	5
Payments for order flow 2	6	-	-	6
Minimum activity fees 2	6	-	-	6
Other 2	7	1	-	8
	$ 203	$ 1	$ -	$ 204

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	Nine Months Ended September 30, 2018			
	Electronic brokerage	Market making	Corporate	Total
	(in millions)			
Geographic location 1				
United States	$ 483	$ 4	$ 1	$ 488
International	193	-	-	193
	$ 676	$ 4	$ 1	$ 681
Major types of services				
Commissions	$ 572	$ -	$ -	$ 572
Market data fees 2	34	-	-	34
Risk exposure fees 2	20	-	-	20
Payments for order flow 2	16	-	-	16
Minimum activity fees 2	16	-	-	16
Other 2	18	4	1	23
	$ 676	$ 4	$ 1	$ 681

(1) Based on the location of the subsidiaries in which the revenues are recorded.
(2) Included in other income on 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 $9 million, as of September 30, 2018, 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, 2018, 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, 2018, contract liability balances were not material.

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9. Other Income

The components of other income for the three months and nine months ended September 30, 2018 and 2017 were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Market data fees1	$ 12	$ 11	$ 34	$ 29
Risk exposure fees1	5	6	20	17
Payments for order flow1	6	4	16	12
Minimum activity fees1	6	4	16	14
Other brokerage related fees	7	3	18	8
Gains on financial instruments, at fair value and other investments, net	4	5	15	7
Gains (losses) from currency diversification strategy, net	(24)	26	(7)	104
Other, net	5	11	9	14
	$ 21	$ 70	$ 121	$ 205

(1) See Note 8 for description of these revenues.

Other brokerage related fees include FDIC sweep fees, order routing fees, IPO concession fees and other miscellaneous fees charged to our customers. Gains on financial instruments, at fair value and other investments, net include (1) 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 (2) 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 Companies 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 were $3 million and $2 million of plan contributions for the nine months ended September 30, 2018 and 2017, respectively.

2007 ROI Unit Stock Plan

In connection with the IPO, the Company adopted the IBG, Inc. 2007 ROI Unit Stock Plan ("ROI Unit Stock Plan"). An aggregate of 1,271,009 shares of restricted common stock (consisting of 1,250,000 shares issued under the ROI Unit Stock Plan and 21,009 shares under the 2007 Stock Incentive Plan, as described below), with a fair value at the date of grant of $38 million were issued to IBG LLC and held as treasury stock.

As of September 30, 2018, the Company has distributed all shares of restricted common stock under the ROI Unit Stock Plan.

2007 Stock Incentive Plan

In 2017, the Company amended the 2007 Stock Incentive Plan (the "Stock Incentive Plan") to extend its term for a ten-year period through April 4, 2027, which was approved by the Company's stockholders at its 2018 Annual Meeting, held on April 19, 2018. 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.

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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 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.

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 24,263 restricted stock units have been granted to the external directors cumulatively since the plan's inception.

Stock Incentive Plan awards granted (excluding 21,009 shares issued pursuant to the ROI Unit Stock Plan described above) and the related fair values since the plan's inception are presented in the table below:

	Units		Fair Value at Date of Grant ($ millions)
Prior periods (since inception)	20,888,468		$ 397
December 31, 2015	1,211,533		52
December 31, 2016	1,451,136		55
December 31, 2017	946,489	1	57
	24,497,626		$ 561

(1) Stock Incentive Plan number of granted restricted stock units related to 2017 was adjusted by 23,082 additional restricted stock units during the nine months ended September 30, 2018.

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, there are no vested awards that remain undistributed.

Compensation expense related to the Stock Incentive Plan recognized in the condensed consolidated statements of comprehensive income was $42 million and $38 million for the nine months ended September 30, 2018 and 2017, respectively. Estimated future compensation costs for unvested awards, net of credits for cancelled awards, as of September 30, 2018 are $26 million.

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The following summarizes the Stock Incentive Plan and ROI Unit Stock Plan activities from December 31, 2017 through September 30, 2018:

	Stock Incentive Plan Units		ROI Unit Stock Plan Shares
Balance, December 31, 2017	6,473,720	1	3,849
Granted	—		—
Cancelled	(60,963)		—
Distributed	(2,080,112)		(3,849)
Balance, September 30, 2018	4,332,645		—

(1) Stock Incentive Plan number of granted restricted stock units related to 2017 was adjusted by 23,082 additional restricted stock units during the nine months ended September 30, 2018.

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, 2018, a total of 823,962 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, 2018 and 2017 differs from the U.S. federal statutory rate primarily due to the taxation treatment of income attributable to noncontrolling interests in IBG LLC and the enactment of the Tax Act, as discussed below. These noncontrolling interests are subject to U.S. taxation as partnerships. 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 the obligation of the individual members. 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.

The Tax Act, as previously described, makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%, effective January 1, 2018; (2) requiring a one-time transition tax on certain undistributed earnings of foreign subsidiaries to be paid over eight years; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax, a new minimum tax; (7) creating a new limitation on deductible interest expense; (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (9) repealing the Section 199 manufacturing deduction; and (10) full expensing of qualified property for tax return purposes.

The SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), now codified into ASC Topic 740, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment of the Tax Act for entities to complete the accounting under ASC Topic 740. In accordance with SAB 118, an entity must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC Topic 740 is complete. To the extent that an entity's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, the entity must record a provisional estimate on its financial statements. However, if an entity cannot determine a provisional estimate to be included on its financial statements, the entity should continue to apply ASC Topic 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The Company's accounting for the following elements of the Tax Act is incomplete. However, the Company has made reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Reduction of U.S. federal corporate tax rate: The Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. For certain of the Company's deferred tax assets and liabilities, the Company recognized a provisional net decrease of $115 million with a corresponding adjustment to deferred income tax expense (or deferred tax benefit) for the year ended December, 31, 2017. As of September 30, 2018, the Company has not made any significant adjustments to the provisional amount recorded as of December 31, 2017. While the Company has made a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, the calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences. The Company is still analyzing certain aspects of the Tax Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings of certain foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, in addition to other factors, the amount of post-1986 earnings of the relevant foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. As of December 31, 2017, the Company recognized a provisional Transition Tax obligation of $62 million and for the nine months ended September 30, 2018 has not made any significant adjustments to the provisional amount recorded. This amount may change when the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets are finalized. The Company does not expect any significant changes, but it is continuing to gather additional information to more precisely compute the amount of the Transition Tax.

The Tax Act creates a new requirement that global intangible low taxed income ("GILTI") earned by controlled foreign corporations ("CFC"s) must be included currently in the gross income of the CFC's U.S. shareholder. GILTI is the excess of the shareholder's "net CFC-tested income" over the deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S shareholder's pro rata share of the qualified business asset investment in each CFC with respect to which it is a U.S shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income. Under U.S. GAAP, the Company is allowed to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company selected the period cost method.

As of and for the nine months ended September 30, 2018 and 2017, the Company had no unrecognized tax and no valuation allowances on deferred tax assets were required. The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. As of September 30, 2018, the Company is no longer subject to U.S. Federal and State income tax examinations for tax years prior to 2011, and to non-U.S. income tax examinations for tax years prior to 2008.

As of September 30, 2018, accumulated earnings held by non U.S. subsidiaries totaled $1.1 billion (as of December 31, $1.1 billion). Of this amount, approximately $0.2 billion (as of December 31, 2017 $0.3 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 $0.2 billion and $0.2 billion as of September 30, 2018 and December 31, 2017, respectively, repatriation 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. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

12. Commitments, Contingencies and Guarantees

Litigation

The Company is subject to certain pending and threatened legal actions that arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company has not been 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 final resolution or the ultimate settlement. Management believes that the resolution of these actions 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.

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The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, “Contingencies.” As of September 30, 2018 and 2017, reserves provided for potential losses related to litigation 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, Inc., IBG LLC, Holdings, and IB LLC. Thereafter, Trading Technologies dismissed IBG, Inc. and Holdings from the case, leaving only IBG LLC and IB LLC as defendants (“Defendants”). The operative 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 Litigation”). 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. Trading Technologies also filed patent infringement lawsuits against approximately a dozen other companies in the same court. The Litigation was consolidated with the other lawsuits filed by Trading Technologies.

The Defendants and/or certain codefendants filed petitions with the United States Patent and Trademark Office (“USPTO”) for Covered Business Method Review (“CBM Review”) on the asserted patents. The District Court granted the Defendants’ motion to stay the Litigation pending the CBM Reviews. The USPTO Patent Trial Appeal Board found ten of the twelve asserted patents to be not patentable and two patents to be patentable. The Defendants have filed appeals on the claims that were held to be patentable.

It is difficult to predict the outcome of the matter, however, 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.

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. The Company expects that further proceedings will take place in the District Court at which the Court will consider whether plaintiff can assert negligence claims under Connecticut law based on the facts alleged. The Company believes that after such proceedings the District Court again will dismiss the negligence claims. Regardless of the ultimate outcome of the motion to dismiss, 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 shall be fully pursued against the plaintiff.

Guarantees

Certain of the Operating Companies 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 Companies' 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 Companies 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.

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In connection with its retail brokerage business, IB LLC or other electronic brokerage Operating Companies 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 Company 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 Companies are given a security interest in certain assets of those Operating Companies held by those clearing organizations. These assets may be applied to satisfy the obligations of those Operating Companies to the respective clearing organizations.

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Notes to Unaudited Condensed Consolidated Financial Statements

13. Segment and Geographic Information

The Company has two operating business segments: electronic brokerage and market making. These segments are supported by the corporate segment, which provides centralized services and executes the Company's currency diversification strategy.

The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic trade execution and clearing services to customers worldwide. The Company conducts its remaining market making business (see Note 2 – Discontinued Operations and Costs Associated with Exit or Disposal Cost) principally through its Timber Hill subsidiaries on some of the world's leading exchanges and market centers, primarily in exchange traded equities, equity options and equity index options and futures.

Significant transactions and balances between the Operating Companies occur, primarily as a result of certain Operating Companies holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to affiliates. Charges for transactions between segments are designed to approximate full costs. Intra segment and intra region income and expenses and related balances have been eliminated in this segment and geographic information to reflect the external business conducted in each segment or geographic region. Corporate items include non allocated corporate income and expenses that are not attributed to segments for performance measurement, net gains and losses on positions held as part of the Company's overall currency diversification strategy, corporate assets and eliminations.

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three months and nine months ended September 30, 2018, and 2017, and total assets as of September 30, 2018 and December 31, 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017

	(in millions)			
Net revenues				
Electronic brokerage	$ 444	$ 367	$ 1,352	$ 1,015
Market making	16	30	59	61
Corporate	(21)	29	—	111
Total net revenues	$ 439	$ 426	$ 1,411	$ 1,187
Income before income taxes				
Electronic brokerage	$ 292	$ 225	$ 866	$ 608
Market making	7	11	25	(35)
Corporate	(23)	32	(4)	112
Total income before income taxes	$ 276	$ 268	$ 887	$ 685

	September 30, 2018	December 31, 2017
	(in millions)	
Segment assets		
Electronic brokerage	$ 60,152	$ 58,787
Market making	2,577	8,469
Corporate	(667)	(6,094)
Total assets	$ 62,062	$ 61,162

The Company operates its automated global business in the U.S. and international markets on more than 120 electronic exchanges and market centers. A significant portion of the Company’s net revenues are generated by subsidiaries operating outside the U.S. International operations are comprised of electronic brokerage and market making activities in 28 countries in Europe, Asia and the Americas (outside the U.S.). The following table presents total net revenues and income before income taxes by geographic area for the three months and nine months ended September 30, 2018 and 2017.

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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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Net revenues				
United States	$ 346	$ 345	$ 1,111	$ 964
International	93	81	300	223
Total net revenues	$ 439	$ 426	$ 1,411	$ 1,187
Income before income taxes				
United States	$ 237	$ 234	$ 762	$ 615
International	39	34	125	70
Total income before income taxes	$ 276	$ 268	$ 887	$ 685

14. Regulatory Requirements

As of September 30, 2018, aggregate excess regulatory capital for all of the Operating Companies was $5.5 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 Commodities and Futures Trading Commission's minimum financial requirements (Regulation 1.17), and IBKRFS is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. IBA is subject to the Australian Securities Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Conduct Authority Capital Requirements Directive, 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 and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital:

	Net Capital/ Eligible Equity	Requirement	Excess
	(in millions)		
IB LLC	$ 4,699	$ 514	$ 4,185
TH LLC	206	-	206
IBKRFS	590	89	501
Other regulated Operating Companies	773	132	641
	$ 6,268	$ 735	$ 5,533

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

As of September 30, 2018, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

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Interactive Brokers Group, Inc. and Subsidiaries

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15. 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, 2018 and December 31, 2017 were accounts receivable from directors, officers and their affiliates of $12 million and $250 million, respectively, and payables of $960 million and $648 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.

16. Subsequent Events

As required by FASB ASC Topic 855, “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 in Note 4, no other recordable or disclosable events occurred.

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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 March 1, 2018 and elsewhere in this report.

Introduction

Interactive Brokers Group, Inc. (the “Company” or “IBG, Inc.”) is a holding company whose primary asset is its ownership of approximately 18.1% of the membership interests of IBG LLC. The remaining approximately 81.9% of IBG LLC membership interests are held by IBG Holdings LLC (“Holdings”), a holding company that is owned by our founder, Chairman and Chief Executive Officer, 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, 2018.

	IBG, Inc.	Holdings	Total
Ownership %	18.1%	81.9%	100.0%
Membership interests	75,097,443	338,691,717	413,789,160

We are an automated global electronic broker and market maker (although, we have substantially exited our options market making business - see Note 2 - Discontinued Operations and Costs Associated with Exit or Disposal Activities to the condensed consolidated financial statements elsewhere in this report). 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 securities, futures and foreign exchange instruments on more than 120 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. The proliferation of electronic exchanges over nearly the last three decades has provided us with the opportunity to integrate our software with an increasing number of exchanges and market centers into one automatically functioning, computerized platform that requires minimal human intervention.

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

Business Segments

We report our results in two operating business segments, electronic brokerage and market making (being discontinued). These segments are analyzed separately as these are the two principal business activities from which we derive our revenues and to which we allocate resources.

Electronic Brokerage. We conduct our electronic brokerage business through certain Interactive Brokers (“IB”) subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on our proprietary technology originally developed for our market making business, IB’s 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. We offer our customers access to all classes of tradable, primarily exchange listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 120 exchanges and market centers in 29 countries and in 23 currencies seamlessly around the world. The emerging complexity of multiple market centers has provided us with the opportunity of building and continuously adapting our order routing software to secure excellent execution prices.

Our customer base is diverse with respect to geography and segments. Currently, more than half 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 65% of our customers’ equity is in institutional accounts such as hedge funds, financial advisors, proprietary trading desks and introducing brokers. Specialized products and services that we have developed are successfully attracting these accounts. For example, we offer prime brokerage services, including capital introduction 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 and low pricing attract introducing brokers.

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We provide a host of analytical and business tools such as Investors' MarketplaceSM, which allows wealth advisors to search for money managers and assign them to customer accounts based on their investment strategy. EmployeeTrackSM is widely used by compliance officers of financial institutions to streamline the process of tracking their employees' brokerage activities. The Probability Lab® allows our customers to analyze option strategies under various market assumptions. Risk NavigatorSM is a real-time market risk management platform that allows our customers to measure risk exposure across multiple asset classes around the globe. Portfolio BuilderSM allows our customers to set up an investment strategy based on research and rankings from top research providers and fundamental data. IB Asset Management recruits registered financial advisors, vets them, analyzes their investment track records, groups them by their risk profile, and allows retail investors to assign their accounts to be traded by one or more advisors. In addition, our Greenwich Compliance affiliate offers direct expert registration and start-up compliance services, as well as answers to basic day-to-day compliance questions for experienced investors and traders looking to start their own investment advisor firms. Greenwich Compliance professionals have regulatory and industry experience, and they can help investment advisors trading on the IB platform meet their registration and compliance needs.

We have recently expanded the range of financial services we offer our customers through our Integrated Investment Management program, where customers can perform many different types of transactions from a single account. Our Interactive Brokers Debit Mastercard® allows customers to spend and borrow directly against their account and to make purchases and ATM withdrawals anywhere Debit Mastercard® is accepted around the world. Our Insured Bank Deposit Sweep Program provides customers with up to $2,500,000 of FDIC insurance on their eligible cash balances in addition to the existing $250,000 SIPC coverage, for a maximum coverage of $2,750,000. Bill Pay allows customers to make electronic or check payments to almost any company or individual in the United States. It can be configured for one-time or recurring payments and permits customers to schedule future payments. In addition, our customers can now have their paychecks or other recurring payments directly deposited into their brokerage account.

Market Making. As previously announced, we transferred our U.S. options market making operations to Two Sigma Securities, LLC effective September 29, 2017 and also exited the majority of our options market making activities outside the U.S. by December 31, 2017. We intend to continue conducting certain proprietary trading activities in stocks and related instruments to facilitate our electronic brokerage customers' trading in products such as ETFs, ADRs, CFDs and other financial instruments, as well as exchange-traded market making activities in a few select markets outside of the U.S. However, we do not expect the facilitation activity to be of sufficient size as to require reporting as a separate segment after we discontinue our options market making activities.

As a market maker, in the few select markets in which we operate, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of tradable, exchange listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated many times per second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times.

The operating business segments are supported by our corporate segment which provides centralized services and executes our currency diversification strategy.

Financial Overview

Third Quarter Results: Diluted earnings per share were $0.51 for the quarter ended September 30, 2018 (“current quarter”), compared to $0.43 for the quarter ended September 30, 2017 (“prior year quarter”). The calculation of diluted earnings per share is detailed in Note 4 to the condensed consolidated financial statements, elsewhere in this report.

Diluted earnings per share on comprehensive income were $0.50 for the current quarter, compared to $0.44 for the prior year quarter.

In connection with our currency diversification strategy, we determine our net worth in GLOBALs, a basket of 14 major currencies in which we hold our equity. As a result, as of September 30, 2018, approximately 30% of our equity was denominated in currencies other than the U.S. dollar. In the current quarter, our currency diversification strategy decreased our comprehensive earnings by $27 million (compared to an increase of $32 million in the prior year quarter), as the U.S. dollar value of the GLOBAL decreased by approximately 0.29%, compared to its value as of June 30, 2018. The effects of our currency diversification strategy are reported as (1) a component of other income in the condensed consolidated statement of comprehensive income and (2) 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 comprehensive income.

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.”

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Consolidated: For the current quarter, our net revenues were $439 million and income before income taxes was $276 million, compared to net revenues of $426 million and income before income taxes of $268 million in the prior year quarter. The increase in income before income taxes in the current quarter was mainly driven by a 34% increase in net interest income, partially offset by a 70% decrease in other income. Our pre-tax profit margin was 63% for both the current quarter and the prior year quarter.

Electronic Brokerage: For the current quarter, income before income taxes in our electronic brokerage segment increased $67 million, or 30%, compared to the prior year quarter, driven by higher net interest income, other income and commission revenue, partially offset by higher general and administrative expenses. Net revenues increased 21%, mainly from a 37% increase in net interest income, driven by higher benchmark interest rates and higher average customer credit and margin loan balances; a 2% increase in commissions, primarily driven by higher customer options volume and higher Daily Average Revenue Trades (“DARTs”) in stocks, partially offset by lower average trade sizes across most product categories; and a 31% increase in other income led by higher net mark-to-market gains on other investments and higher fees earned from our FDIC sweep program, compared to the prior year quarter. Pre-tax profit margin was 66% for the current quarter, compared to 61% for the prior year quarter. Customer accounts grew 26% and customer equity increased 23% from September 30, 2017. For the current quarter, total DARTs for cleared and execution only customers increased 10% to 763 thousand, compared to 695 thousand for the prior year quarter.

Market Making: For the current quarter, income before income taxes in our market making segment decreased $4 million, or 36%, compared to the prior year quarter, primarily due to the non-recurrence of an $11 million gain recognized on the transfer of our U.S. market making business in the prior year quarter. The current quarter’s results also reflect lower operating costs on the remaining operations. In the third quarter of 2017, we completed the transfer of our U.S. options market making business to Two Sigma Securities, LLC and by the end of 2017 we had exited the majority of our market making activities outside the U.S. In addition, as a result of discontinuing our options market making activities, we expect that approximately $40 million in annual net expenses will be absorbed by the electronic brokerage segment. As of September 30, 2018, on a prospective basis, approximately 95% of the resources related to the $40 million in annual net expenses have been transferred to the electronic brokerage segment and the majority of the remaining 5% is expected to be transferred during the fourth quarter of 2018.

Under the agreement with Two Sigma Securities, LLC, we have the opportunity for future income from an earn-out agreement, based on the performance of the options market making business under Two Sigma Securities, LLC’s control. Under the agreement, we would earn a share of any U.S. profits after variable costs and other agreed-upon costs for three years; and a separate share of any non-U.S. profits after variable costs for four years. The agreement provides Two Sigma Securities, LLC the opportunity to enter non-U.S. parts of this business and, while it does not preclude us from participating in those markets, the earn-out would be effective only in markets where we did not compete.

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Nine-Month Results: Diluted earnings per share were $1.71 for the nine months ended September 30, 2018 (“current nine-month period”), compared to $1.10 for the nine months ended September 30, 2017 (“prior year nine-month period”). The calculation of diluted earnings per share is detailed in Note 4 to the condensed consolidated financial statements, elsewhere in this report.

Diluted earnings per share on comprehensive income were $1.54 for the current nine-month period, compared to $1.26 for the prior year nine-month period.

Consolidated: For the current nine-month period, our net revenues were $1,411 million and income before income taxes was $887 million, compared to net revenues of $1,187 million and income before income taxes of $685 million in the prior year nine-month period. The increase in income before income taxes in the current nine-month period was mainly driven by a 43% increase in net interest income and a 20% increase in commission revenue, partially offset by a 41% decrease in other income, a 6% increase in execution, clearing and distribution fees, and a 5% increase in employee compensation and benefits expenses. Our pre-tax profit margin was 63%, compared to 58% for the prior year nine-month period.

Electronic Brokerage: For the current nine-month period, income before income taxes in our electronic brokerage segment increased $258 million, or 42%, compared to the prior year nine-month period, driven by higher net interest income, commission revenue and other income, partially offset by higher execution, clearing and distribution fees, general and administrative, and employee compensation and benefits expenses. Net revenues increased 33%, mainly from a 46% increase in net interest income, driven by higher benchmark interest rates and higher average customer credit and margin loan balances; a 20% increase in commissions, primarily driven by higher customer options and futures volume; and a 42% increase in other income led by higher fees earned from our FDIC sweep program, higher net mark-to-market gains on our U.S. government securities portfolio and other investments, higher order flow and market data fee income, compared to the prior year nine-month period. Pre-tax profit margin was 64% for the current nine-month period, compared to 60% for the prior year nine-month period. Customer accounts grew 26% and customer equity increased 23% from September 30, 2017. For the current nine-month period, total DARTs for cleared and execution only customers increased 23% to 832 thousand, compared to 674 thousand for the prior year nine-month period.

Market Making: For the current nine-month period, income before income taxes in our market making segment increased $60 million, to a gain of $25 million compared to the prior year nine-month period, primarily due to lower operating costs on the remaining operations and the non-recurrence of $24 million in one-time exit costs related to the wind-down of our options market making business, partially offset by the non-recurrence of an $11 million gain on the transfer of our U.S. market making business recognized in the prior year nine-month period.

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Trading Volumes and Brokerage Statistics

The following tables present historical trading volumes and brokerage statistics for our business. However, volumes are not the only drivers in our business.

TRADE VOLUMES:

(in 000's, except %)

Period	Market Making Trades	% Change	Brokerage Cleared Trades	% Change	Brokerage Non Cleared Trades	% Change	Total Trades	% Change	Avg. Trades per U.S. Trading Day
2015	65,937		242,846		18,769		327,553		1,305
2016	64,038	(3%)	259,932	7%	16,515	(12%)	340,485	4%	1,354
2017	31,282	(51%)	265,501	2%	14,835	(10%)	311,618	(8%)	1,246
3Q2017	6,834		66,262		3,698		76,794		1,229
3Q2018	4,795	(30%)	71,646	8%	5,293	43%	81,734	6%	1,308
2Q2018	4,575		78,026		4,641		87,242		1,363
3Q2018	4,795	5%	71,646	(8%)	5,293	14%	81,734	(6%)	1,308

CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

TOTAL

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	634,388		140,668		172,742,520	
2016	572,834	(10%)	143,287	2%	155,439,227	(10%)
2017	395,885	(31%)	124,123	(13%)	220,247,921	42%
3Q2017	93,470		31,508		55,195,706	

3Q2018	92,297	(1%)	29,936	(5%)	45,572,711	(17%)
2Q2018	93,253		36,693		51,370,386	
3Q2018	92,297	(1%)	29,936	(18%)	45,572,711	(11%)

MARKET MAKING

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	335,406		14,975		15,376,076	
2016	307,377	(8%)	14,205	(5%)	13,082,887	(15%)
2017	102,025	(67%)	5,696	(60%)	7,139,622	(45%)
3Q2017	18,676		1,040		1,814,393	
3Q2018	11,805	(37%)	758	(27%)	2,995,942	65%
2Q2018	11,813		756		2,442,203	
3Q2018	11,805	0%	758	0%	2,995,942	23%

(1) Futures contract volume includes options on futures.

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BROKERAGE TOTAL

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	298,982		125,693		157,366,444	
2016	265,457	(11%)	129,082	3%	142,356,340	(10%)
2017	293,860	11%	118,427	(8%)	213,108,299	50%
3Q2017	74,794		30,468		53,381,313	
3Q2018	80,492	8%	29,178	(4%)	42,576,769	(20%)
2Q2018	81,440		35,937		48,928,183	
3Q2018	80,492	(1%)	29,178	(19%)	42,576,769	(13%)

BROKERAGE CLEARED

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	244,356		124,206		153,443,988	
2016	227,413	(7%)	128,021	3%	138,523,932	(10%)
2017	253,304	11%	116,858	(9%)	209,435,662	51%
3Q2017	64,363		30,034		52,515,806	
3Q2018	70,233	9%	28,922	(4%)	41,406,443	(21%)
2Q2018	71,873		35,679		47,840,126	
3Q2018	70,233	(2%)	28,922	(19%)	41,406,443	(13%)

(1) Futures contract volume includes options on futures.

BROKERAGE STATISTICS:

(in 000’s, except % and where noted)

Year over Year	3Q2018	3Q2017	% Change
Total Accounts	576	457	26%
Customer Equity (in billions) (1)	$ 142.5	$ 115.7	23%
Cleared DARTs	696	646	8%
Total Customer DARTs	763	695	10%
Cleared Customers (in $'s, except DART per account)			
Commission per DART	$ 3.78	$ 3.96	(5%)
DART per Avg. Account (Annualized)	312	365	(15%)
Net Revenue per Avg. Account (Annualized)	$ 3,109	$ 3,249	(4%)

Consecutive Quarters	3Q2018	2Q2018	% Change
Total Accounts	576	542	6%
Customer Equity (in billions) (1)	$ 142.5	$ 134.7	6%
Cleared DARTs	696	739	(6%)
Total Customer DARTs	763	797	(4%)
Cleared Customers (in $'s, except DART per account)			
Commission per DART	$ 3.78	$ 3.86	(2%)
DART per Avg. Account (Annualized)	312	350	(11%)
Net Revenue per Avg. Account (Annualized)	$ 3,109	$ 3,190	(3%)

(1) Excludes non customers.

Business Environment

During the third quarter of 2018, U.S. market volatility was higher than in the prior year quarter, though down from the levels seen in the first two quarters of the year. Market indices around the globe were mixed, with the S&P 500 index rising 7%, but with European and Asian indices predominantly down; and with U.S. interest rates continuing on an upward path while trends in benchmark rates of other currencies were varied.

Among our customer base, volatility is strongly correlated with customer trading activity across product types. As we maintain robust account and customer asset growth, we expect our customers' trading activity to outpace general market volume measures. In addition, higher benchmark interest rates give us an opportunity to earn more net interest income on fully interest-sensitive assets.

Underpinning the impacts of these market factors is our customer account growth, which remained robust as total customer accounts increased 26% from the prior year quarter to 576 thousand and customer equity increased 23% to $142.5 billion. Institutional customers, such as hedge funds, mutual funds, introducing brokers, proprietary trading groups and financial advisors, comprised approximately 51% of total accounts and approximately 65% of total customer equity as of September 30, 2018. Our customer base is geographically diverse, with customers residing in over 200 countries and territories, and with over 50% of new customers coming from outside the U.S. We continue to attract large customers that seek our superior technology, high interest rates on cash balances, and low costs, as well as our securities finance services, including margin lending and short sale support.

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 data received from exchanges worldwide, volumes in exchange listed equity based options increased by approximately 15% globally and 13% in the U.S. for the current quarter, compared to the prior year quarter. During the current quarter we accounted for approximately 4.2% (4.9% in the prior year quarter) of the exchange listed equity based options volume traded worldwide (including options on ETFs and stock index products), and approximately 6.5% (7.5% in the prior year quarter) of exchange listed equity based options volume traded in the U.S. This decrease was primarily due to exiting our options market making activities in the U.S. It is important to note that although options volume is a readily comparable measure, it reflects only a portion of the volume that generates our commission revenues. See tables on pages 42-43 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

Volatility. Based on the Chicago Board Options Exchange Volatility Index ("VIX®"), the average U.S. market volatility increased to 12.9 in the current quarter, up 18% from the average of 11.0 in the prior year quarter, though down from the peak levels of the first and second quarters of 2018 (17.2 and 15.4, respectively). Higher volatility improves our electronic brokerage performance because it generally corresponds to higher trading volumes. In the third quarter of 2018, as the VIX increased, we saw a positive impact on customer trading activity and our commission revenues, which rose 2% over the prior year quarter.

Interest Rates. The U.S. Federal Reserve continued its series of increases in the target federal funds rate with hikes in June and September 2018, while rates in other currencies were mixed. Increases in benchmark rates have generally led to higher net interest income and wider net interest margin. Because we pay among the highest rates in the brokerage industry on qualified customer cash balances and charge among the lowest rates on margin borrowings, we attract customers who seek to maximize their yields and minimize their costs. As our margin balances are tied to benchmark rates, rising U.S. interest rates have enhanced the interest we receive on our U.S. dollar customer margin balances. Rising rates also increase the interest we earn on our segregated cash, the majority of which is invested in U.S. government securities and related instruments. Higher rates also raise our interest expense, as we pass along more interest to our customers. We believe our yields attract 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, additional net interest income is earned on non-interest bearing customer balances, e.g., on securities accounts with less than $100,000 in equity, and on rising balances. Electronic brokerage net interest income grew 37%, compared to the prior year quarter. During this time, average customer credit balances rose 3% due to an inflow of new accounts, and average customer margin loan balances increased 22%, due to our customers' appetite for increased leverage, along with expanded prime broker financing.

Currency fluctuations. As a global electronic broker and market maker 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 14 currencies we call the "GLOBAL" in order 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. During the current quarter the value of the GLOBAL, as measured in U.S. dollars, decreased 0.29% compared to its value as of June 30, 2018, which had a negative impact on our comprehensive earnings for the current quarter.

A discussion of our approach for 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."

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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:

•Retail broker dealer 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 SmartRoutingSM software.

•Benchmark interest rates have fluctuated over the past years due to economic conditions. Changes in interest rates may not be predictable.

•Price competition in commissions and other fees among broker-dealers may intensify.

· Scrutiny of equity and option 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 market making activities will continue to be impacted by the following trends until we complete its wind-down.

· The effects of market structure changes, competition (in particular, from high frequency traders) and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.

· In an effort to improve the quality of their executions as well as to increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.

· A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.

See “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10 K, filed with the SEC on March 1, 2018, and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

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Results of Operations

The tables in the period comparisons below provide summaries of our consolidated results of operations. 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,	
	2018	2017	2018	2017
	(in millions, except share and per share amounts)			
Revenues				
Commissions	$ 167	$ 163	$ 572	$ 477
Interest income	363	243	1,007	626
Trading gains	7	11	32	26
Other income	21	70	121	205
Total revenues	558	487	1,732	1,334
Interest expense	119	61	321	147
Total net revenues	439	426	1,411	1,187
Non-interest expenses				
Execution, clearing and distribution fees	57	61	196	185
Employee compensation and benefits	63	64	201	192
Occupancy, depreciation and amortization	12	11	35	34
Communications	7	7	20	22
General and administrative	25	15	70	67
Customer bad debt	(1)	-	2	2
Total non-interest expenses	163	158	524	502
Income before income taxes	276	268	887	685
Income tax expense	18	21	52	56
Net income	258	247	835	629
Less net income attributable to noncontrolling interests	219	216	709	551
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Earnings per share				
Basic	$ 0.52	$ 0.44	$ 1.73	$ 1.12
Diluted	$ 0.51	$ 0.43	$ 1.71	$ 1.10
Weighted average common shares outstanding				
Basic	74,649,469	71,109,577	72,879,007	69,405,624
Diluted	75,360,089	71,973,483	73,745,640	70,409,619

Comprehensive income				
Net income available for common stockholders	$ 39	$ 31	$ 126	$ 78
Other comprehensive income				
Cumulative translation adjustment, before income taxes	(1)	1	(14)	11
Income taxes related to items of other comprehensive income	-	-	(1)	-
Other comprehensive income (loss), net of tax	(1)	1	(13)	11
Comprehensive income available for common stockholders	$ 38	$ 32	$ 113	$ 89
Comprehensive income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests	$ 219	$ 216	$ 709	$ 551
Other comprehensive income - cumulative translation adjustment	(2)	5	(60)	55
Comprehensive income attributable to noncontrolling interests	$ 217	$ 221	$ 649	$ 606

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Three Months Ended September 30, 2018 ("current quarter") compared to the Three Months Ended September 30, 2017 ("prior year quarter")

Net Revenues

Total net revenues, for the current quarter, increased $13 million, or 3%, compared to the prior year quarter, to $439 million. The increase in net revenues was primarily due to higher net interest income and commissions, partially offset by lower other income.

Commissions

Commissions, for the current quarter, increased $4 million, or 2%, compared to the prior year quarter, to $167 million, driven by higher customer options volume and higher DARTs in stocks, partially offset by lower average order sizes across most products. Total customer options contract volume increased 8%, while futures contract and stock share volumes decreased 4% and 20%, respectively, compared to the prior year quarter. The decline in stock trade volumes was due to lighter trading in low-priced stocks, and an increase in the proportion of trading in higher-priced stocks. As a result of this shift, while the number of shares traded declined, the DARTs and commissions on stocks both rose. Total DARTs for cleared and execution-only customers, for the current quarter, increased 10% to 763 thousand, compared to 695 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 8% to 696 thousand, compared to 646 thousand for the prior year quarter. Average commission per DART for cleared customers, for the current quarter, decreased by 5% to $3.78, compared to $3.96 for the prior year quarter, reflecting smaller average order sizes across most products.

Interest Income and Interest Expense

Net interest income (interest income less interest expense), for the current quarter, increased $62 million, or 34%, compared to the prior year quarter, to $244 million. The increase in net interest income was driven by higher average customer credit and margin loan balances and higher benchmark interest rates.

Net interest income on customer balances, for the current quarter, increased $64 million, compared to the prior year quarter, driven by a $1.6 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, a $5.2 billion increase in average customer margin loans, and a 0.77% increase in the average Federal Funds effective rate to 1.92%, compared to the prior year quarter. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year quarter, in part, as we passed along more interest to our customers. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

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 decreased 14%, to $3.5 billion and average securities loaned decreased 2%, to $3.9 billion, compared to the prior year quarter. Securities borrowed and loaned balances were both impacted by reduced activity in the market making segment. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers and in our market making business. During the current quarter, net fees earned from securities lending transactions decreased $9 million, or 21%, compared to the prior year quarter due to fewer opportunities to borrow and lend "hard-to-borrow" (i.e., high fee rate) shares. 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 and securities loaned.

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 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), 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

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impact the yields on segregated cash and customer credit balances as effective interest rates in those currencies fluctuate.

The following table presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
	2018	2017
	(in millions)	
Average interest-earning assets		
Segregated cash and securities	$ 20,923	$ 24,043
Customer margin loans	29,339	24,132
Securities borrowed	3,531	4,096
Other interest-earning assets	4,371	3,155
FDIC sweeps 1	1,423	63
	$ 59,587	$ 55,489
Average interest-bearing liabilities		
Customer credit balances	$ 48,544	$ 46,910
Securities loaned	3,882	3,964
	$ 52,426	$ 50,874
Net interest income		
Segregated cash and securities, net 2/3	$ $91	$ 60
Customer margin loans 4	182	106
Securities borrowed and loaned, net	33	42
Customer credit balances, net 2/4	(79)	(36)
Other net interest income 1/3/5	25	11
Net interest income	$ 252	$ 183
Net interest margin ("NIM")	1.68%	1.31%
Annualized yields		
Segregated cash and securities	1.73%	0.99%
Customer margin loans	2.46%	1.74%
Customer credit balances	0.65%	0.30%

(1) Represents the average amount of customer cash swept into FDIC insured banks primarily as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's consolidated statement of financial

condition. Income derived from program deposits is reported in other net interest income in the table above.

(2) We have recategorized components of net interest income related to currencies with negative interest rates for prior periods, which amounts have been adjusted to conform to the current period presentation. For the prior year quarter, $4 million has been recategorized from net interest income on “segregated cash and securities, net” to “customer credit balances, net”.

(3) During the current quarter, we have reclassified certain components of net interest income related to investments in U.S. government securities and reverse repurchase agreements, and as such, prior period amounts have been adjusted to conform to the current period presentation. For the prior year quarter, $2 million has been reclassified from net interest income on "segregated cash and securities, net" to "other net interest income, net".

(4) 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).

(5) Includes income from financial instruments which has the same characteristics as interest, but is reported in other income in the Company’s condensed consolidated statements of comprehensive income.

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Trading Gains

Trading gains, for the current quarter, decreased $4 million, or 36%, compared to the prior year quarter, to $7 million, on the remaining market making operations. Reflecting the wind-down of our options market making activities, our market making operations executed 4.8 million trades compared to 6.8 million trades executed in the prior year quarter. In addition, market making options and futures contract volumes decreased 37% and 27%, respectively, while stock share volumes increased 65%, compared to the prior year quarter, mainly due to low-priced stocks traded in Hong Kong.

Included in trading gains are net dividends. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid, which will not be received by those who purchase stock on or after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making activities.

Other Income

Other income, for the current quarter, decreased $49 million, or 70%, compared to the prior year quarter, to $21 million. Other income from core items increased $8 million, or 29%, to $36 million, mainly driven by a $3 million increase in FDIC sweep fee income and increases in account activity fee income, order flow income and market data fee income, compared to the prior year quarter. Other income from non-core items decreased $57 million to a loss of $15 million, mainly driven by a $50 million decrease in gains from our currency diversification strategy (a loss of $24 million for the current quarter, compared to a gain of $26 million in the prior year quarter) and the non-recurrence of an $11 million gain recognized on the transfer of our U.S. market making business in the prior year quarter, partially offset by a gain of $3 million from the remeasurement of our Tax Receivable Agreement liability, payable to Holdings, as a result of the tax reclassification of a foreign subsidiary 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."

Non Interest Expenses

Non-interest expenses, for the current quarter, increased $5 million, or 3%, compared to the prior year quarter, to $163 million, mainly due to a $10 million increase in general and administrative expenses and a $1 million increase in occupancy expenses, partially offset by a $4 million decrease in execution, clearing and distribution fees, a $1 million decrease in employee compensation and benefits, and a $1 million net recovery of customer bad debt compared to the prior year quarter. As a percentage of total net revenues, non-interest expenses were 37% for both the current quarter and the prior year quarter.

Execution, Clearing and Distribution Fees

Execution, clearing and distribution fees, for the current quarter, decreased $4 million, or 7%, compared to the prior year quarter, to $57 million, driven by lower electronic brokerage segment trade volumes, where customer futures contract and stock share volumes decreased 4% and 20%, respectively; by the wind-down of our market making operations, which resulted in substantially lower options and futures contract volume; and by our receipt of a $3 million clearing fee rebate in the current quarter versus a $1.5 million rebate in the prior year quarter.

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Employee Compensation and Benefits

Employee compensation and benefits expenses, for the current quarter, decreased $1 million, or 2%, compared to the prior year quarter, to $63 million, mainly due to regular adjustments to year-to-date budgeting for bonus accruals in the current quarter, compared to the prior year quarter, partially offset by a 16% increase in the number of employees to 1,380 for the current quarter-end, compared to 1,186 for the prior year quarter-end. Within the operating business segments, we continued to add staff in customer service, legal and compliance, and software development to support electronic brokerage and to reduce staff in market making. 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 the current quarter and 15% for the prior year quarter.

General and Administrative

General and administrative expenses, for the current quarter, increased $10 million, or 67%, compared to the prior year quarter, to $25 million, mainly due to higher professional services fees and expenses related to legal and regulatory matters. As a percentage of total net revenues, general and administrative expenses were 6% for the current quarter and 4% for the prior year quarter.

Customer Bad Debt

Customer bad debt expense was a net recovery of $1 million, for the current quarter, compared to an immaterial loss in the prior year quarter.

Income Tax Expense

Income tax expense, for the current quarter, decreased $3 million, or 14%, compared to the prior year quarter, to $18 million, primarily due to the effects of the Tax Cuts and Jobs Act (the “Tax Act”) which reduced the corporate income tax rate from 35% to 21%, compared to the prior year quarter, partially offset by a one-time income tax expense of $4 million related to the remeasurement of certain deferred tax assets due to the tax reclassification of a foreign subsidiary. This increase in income tax expense was partially offset by a $3 million increase in other income related to the remeasurement of the Tax Receivable Agreement liability. See Note 11 to the condensed consolidated financial statements, in Part 1, included elsewhere in this report.

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The following table presents information about our income tax expense for the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,	
	2018	2017
	(in millions)	
Consolidated		
Consolidated income before income taxes	$ 276	$ 268
IBG, Inc. stand-alone income before income taxes	3	-
Operating Companies income before income taxes	$ 273	$ 268
Operating Companies		
Income before income taxes	$ 273	$ 268
Income tax expense	6	7
Net income available to members	$ 267	$ 261
IBG, Inc.		
Average ownership percentage in IBG LLC	18.0%	17.3%
Net income available to IBG, Inc. from Operating Companies	$ 48	$ 45
IBG, Inc. stand-alone income before income taxes	3	-
Income before income taxes	51	45
Income tax expense	12	14
Net income available to common stockholders	$ 39	$ 31
Consolidated income tax expense		
Income tax expense attributable to Operating Companies	$ 6	$ 7
Income tax expense attributable IBG, Inc.	12	14
Consolidated income tax expense	$ 18	$ 21

Operating Results

Income before income taxes, for the current quarter, increased $8 million, or 3%, to $276 million, compared to the prior year quarter. Pretax profit margin was 63% for both the current quarter and the prior year quarter.

Our operating results, for the current quarter, excluding the effects of our currency diversification strategy, the net mark-to-market gains and losses from our U.S. government securities portfolio, and the one-time net recovery of costs related to the wind-down of our U.S. options market making operations, compared to the prior year quarter, were as follows: net revenues were $462 million, up 19%; income before income taxes was $299 million, up 29%; and pre-tax profit margin increased to 65% for the current quarter, from 60% for the prior year quarter.

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Nine Months Ended September 30, 2018 ("current nine-month period") compared to the Nine Months Ended September 30, 2017 ("prior year nine-month period")

Net Revenues

Total net revenues, for the current nine-month period, increased $224 million, or 19%, compared to the prior year nine-month period, to $1,411 million. The increase in net revenues was primarily due to higher net interest income and commissions, partially offset by lower other income.

Commissions

Commissions, for the current nine-month period, increased $95 million, or 20%, compared to the prior year nine-month period, to $572 million, driven by higher customer trading volumes in options and futures and continued customer account growth. Total customer options and futures contract volumes both increased 22%, while stock share volumes remained unchanged compared to the prior year nine-month period. Total DARTs for cleared and execution-only customers, for the current nine-month period, increased 23% to 832 thousand, compared to 674 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 23% to 769 thousand, compared to 625 thousand for the prior year nine-month period. Average commission per DART for cleared customers, for the current nine-month period, decreased by 2% to $3.90, compared to $3.99 for the prior year nine-month period, reflecting smaller average order sizes across most products.

Interest Income and Interest Expense

Net interest income (interest income less interest expense), for the current nine-month period, increased $207 million, or 43%, compared to the prior year nine-month period, to $686 million. The increase in net interest income was driven by higher average customer credit and margin loan balances and higher benchmark interest rates.

Net interest income on customer balances, for the current nine-month period, increased $182 million, compared to the prior year nine-month period, driven by a $3.1 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, a $7.6 billion increase in average customer margin loans, and a 0.77% increase in the average Federal Funds effective rate to 1.70%, compared to the prior year nine-month period. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year nine-month period, in part, as we passed along more interest to our customers. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

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 decreased 19%, to $3.3 billion and average securities loaned increased 8%, to $4.1 billion, compared to the prior year nine-month period. Securities borrowed and loaned balances were both impacted by reduced activity in the market making segment. Net interest earned from securities lending is affected by the level of demand for securities positions held by our customers and in our market making business. During the current nine-month period, net fees earned from securities lending transactions increased $4 million, or 4%, compared to the prior year nine-month period. The increase in net interest income from securities lending transactions was attributable to the electronic brokerage segment. 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 and securities loaned.

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 is paid only on eligible cash credit balances (i.e., balances over $10 thousand

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or equivalent, in securities accounts with over $100 thousand in equity), 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.

The following table presents net interest income information corresponding to interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Average interest-earning assets		
Segregated cash and securities	$ 20,437	$ 24,207
Customer margin loans	29,599	22,017
Securities borrowed	3,295	4,071
Other interest-earning assets	4,208	2,748
FDIC sweeps 1	1,122	52
	$ 58,661	$ 53,095
Average interest-bearing liabilities		
Customer credit balances	$ 47,954	$ 44,901
Securities loaned	4,068	3,765
	$ 52,022	$ 48,666
Net interest income		
Segregated cash and securities, net 2/3	$ 233	$ 143
Customer margin loans 4	485	270
Securities borrowed and loaned, net	116	112
Customer credit balances, net 2/4	(191)	(68)
Other net interest income 1/3/5	63	23
Net interest income	$ 706	$ 480
Net interest margin ("NIM")	1.61%	1.21%
Annualized yields		
Segregated cash and securities	1.52%	0.79%
Customer margin loans	2.19%	1.64%
Customer credit balances	0.53%	0.20%

(1) Represents the average amount of customer cash swept into FDIC insured banks primarily as part of our Insured Bank Deposit Sweep Program. This item is not recorded in the Company's consolidated statement of financial condition. Income derived from program deposits is reported in other net interest income in the table above.

(2) We have recategorized components of net interest income related to currencies with negative interest rates for prior periods, which amounts have been adjusted to conform to the current period presentation. For the prior year nine-month period, $12 million has been recategorized from net interest income on “segregated cash and securities, net” to “customer credit balances, net”.

(3) During the current quarter, we have reclassified certain components of net interest income related to investments in U.S. government securities and reverse repurchase agreements, and as such, prior period amounts have been adjusted to conform to the current period presentation. For the prior year nine-month period, $5 million has been reclassified from net interest income on "segregated cash and securities, net" to "other net interest income, net". For the quarters ended March 31, 2017, June 30, 2017, December 31, 2017, March 31, 2018, and June 30, 2018 the amounts reclassified were $1 million, $2 million, $3 million, $3 million and $4 million, respectively.

(4) 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).

(5) Includes income from financial instruments which has the same characteristics as interest, but is reported in other income in the Company's condensed consolidated statements of comprehensive income.

Trading Gains

Trading gains, for the current nine-month period, increased $6 million, or 23%, compared to the prior year nine-month period, to $32 million, reflecting favorable conditions in the few select markets in which we continue to operate. Reflecting the wind-down of our options market making activities, our market making operations executed 13.8 million trades compared to 27.0 million trades executed in the prior year nine-month period. In addition, market making options and futures contract volumes decreased 59% and 48%, respectively, while stock share volumes increased 53%, compared to the prior year nine-month period, mainly due to low-priced stocks traded in Hong Kong.

Included in trading gains are net dividends. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid, which will not be received by those who purchase stock on or after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making activities.

Other Income

Other income, for the current nine-month period, decreased $84 million, or 41%, compared to the prior year nine-month period, to $121 million. Other income from core items increased $24 million, or 30%, to $104 million, mainly driven by a $6 million increase in FDIC sweep fee income and increases in market data fee income, order flow income, account activity fee income, risk exposure fee income and consulting fee income, compared to the prior year nine-month period. Other income from non-core items decreased $108 million, or 86%, to $17 million, mainly driven by an $111 million decrease in gains from our currency diversification strategy (a loss of $7 million for the current nine-month period, compared to a gain of $104 million in the prior year nine-month period) and the non-recurrence of an $11 million gain recognized on the transfer of our U.S. market making business in the prior year nine-month period, partially offset by an $8 million increase in net gains from other investments and a gain of $3 million from the remeasurement of our Tax Receivable Agreement liability, payable to Holdings, as a result of the tax reclassification of a foreign subsidiary 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."

Non Interest Expenses

Non-interest expenses, for the current nine-month period, increased $22 million, or 4%, compared to the prior year nine-month period, to $524 million, mainly due to a $11 million increase in execution, clearing and distribution fees, a $9 million increase in employee compensation and benefits, and a $3 million increase in general and administrative expenses, partially offset by a $2 million decrease in communications expense, compared to the prior year nine-month period. As a percentage of total net revenues, non-interest expenses were 37% for the current nine-month period and 42% for the prior year nine-month period.

Execution, Clearing and Distribution Fees

Execution, clearing and distribution fees, for the current nine-month period, increased $11 million, or 6%, compared to the prior year nine-month period, to $196 million, driven by higher electronic brokerage segment trade volumes, where customer options and futures contract volumes both increased 22%. This was partially offset by the wind-down of our market making operations, which resulted in substantially lower options and futures contract volumes.

Employee Compensation and Benefits

Employee compensation and benefits expenses, for the current nine-month period, increased $9 million, or 5%, compared to the prior year nine-month period, to $201 million, mainly due to increases in employee incentive compensation accruals in the current nine-month period, compared to the prior year nine-month period and by a 16% increase in the number of employees to 1,380, for the current nine-month period-end, compared to 1,186 for the prior year nine-month period-end. Within the operating business segments, we continued to add staff in customer service, legal and compliance, and software development to support electronic brokerage and to reduce staff in market making. 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 the current nine-month period and 16% for the prior year nine-month period.

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General and Administrative

General and administrative expenses, for the current nine-month period, increased $3 million, or 4%, compared to the prior year nine-month period, to $70 million, mainly due to higher professional services fees and expenses related to legal and regulatory matters, partially offset by the non-recurrence of $21 million in one-time exit costs related to the wind-down of our options market making business recognized in the prior year nine-month period. As a percentage of total net revenues, general and administrative expenses were 5% for the current nine-month period and 6% the prior year nine-month period.

Customer Bad Debt

Customer bad debt expense, for the current nine-month period, remained unchanged compared to the prior year nine-month period, at $2 million.

Income Tax Expense

Income tax expense, for the current nine-month period, decreased $4 million, or 7%, compared to the prior year nine-month period, to $52 million, primarily due to the effects of the Tax Cuts and Jobs Act (the “Tax Act”) which reduced the corporate income tax rate from 35% to 21%, partially offset by a one-time income tax expense of $4 million related to the remeasurement of certain deferred tax assets due to the tax reclassification of a foreign subsidiary. This increase in tax expense was partially offset by a $3 million increase in other income related to the remeasurement of the Tax Receivable Agreement liability. See Note 11 to the condensed consolidated financial statements, in Part 1, included elsewhere in this report.

The following table presents information about our income tax expense for the nine months ended September 30, 2018 and 2017.

	Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Consolidated		
Consolidated income before income taxes	$ 887	$ 685
IBG, Inc. stand-alone income before income taxes	3	(1)
Operating Companies income before income taxes	$ 884	$ 686

Operating Companies

Income before income taxes	$ 884	$ 686
Income tax expense	23	22
Net income available to members	$ 861	$ 664
IBG, Inc.		
Average ownership percentage in IBG LLC	17.7%	16.9%
Net income available to IBG, Inc. from Operating Companies	$ 152	$ 112
IBG, Inc. stand-alone income before income taxes	3	-
Income before income taxes	155	112
Income tax expense	29	34
Net income available to common stockholders	$ 126	$ 78
Consolidated income tax expense		
Income tax expense attributable to Operating Companies	$ 23	$ 22
Income tax expense attributable IBG, Inc.	29	34
Consolidated income tax expense	$ 52	$ 56

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Operating Results

Income before income taxes, for the current nine-month period, increased $202 million, or 29%, to $887 million, compared to the prior year nine-month period. Pretax profit margin was 63% for the current nine-month period, up from 58% in the prior year nine-month period.

Our operating results, for the current nine-month period, excluding the effects of our currency diversification strategy, the net mark-to-market gains and losses from our U.S. government securities portfolio, and the one-time net costs related to the wind-down of our options market making business, compared to the prior year nine-month period, were as follows: net revenues were $1,417 million, up 32%; income before income taxes was $893 million, up 50%; and pre-tax profit margin increased to 63% for the current nine-month period, from 56% for the prior year nine-month period.

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Business Segments

The following table sets forth the net revenues, non-interest expenses and income before income taxes for our business segments:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
		(in millions)			
Electronic Brokerage	Net revenues	$ 444	$ 367	$ 1,352	$ 1,015
	Non-interest expenses	152	142	486	407
	Income before income taxes	$ 292	$ 225	$ 866	$ 608
	Pre-tax profit margin	66%	61%	64%	60%
Market Making	Net revenues	$ 16	$ 30	$ 59	$ 61
	Non-interest expenses	9	19	34	96
	Income (loss) before income taxes	$ 7	$ 11	$ 25	$ (35)
	Pre-tax profit (loss) margin	44%	37%	42%	(57%)
Corporate(1)	Net revenues	$ (21)	$ 29	$ -	$ 111
	Non-interest expenses	2	(3)	4	(1)
	Income before income taxes	$ (23)	$ 32	$ (4)	$ 112
Total	Net revenues	$ 439	$ 426	$ 1,411	$ 1,187
	Non-interest expenses	163	158	524	502
	Income before income taxes	$ 276	$ 268	$ 887	$ 685
	Pre-tax profit margin	63%	63%	63%	58%

(1) The corporate segment includes corporate related activities, inter-segment eliminations, and gains and losses on positions held as part of our overall currency diversification strategy.

The following sections discuss the results of our operations by business segment, excluding a discussion of corporate segment income and expense. In the following tables, revenues and expenses directly associated with each business segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between business segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated to accurately reflect the external business conducted in each business segment. Rates on transactions between business segments are designed to approximate full costs. In addition to execution, clearing and distribution fees, which are the main cost driver for both the market making and the electronic brokerage segments, each business segment's operating expenses include: (i) employee compensation and benefits expenses that are incurred directly in support of each business segment, (ii) general and administrative expenses, which include directly incurred expenses for property leases, professional fees, travel and entertainment, communications and information services, equipment, and (iii) indirect support costs (including compensation and other related operating expenses) for administrative services provided by corporate segment subsidiaries. Such administrative services include, but are not limited to, computer software development and support, accounting, tax, legal and facilities management.

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Electronic Brokerage

The following table sets forth the results of our electronic brokerage operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Revenues				
Commissions	$ 167	$ 164	$ 572	$ 478
Interest income	363	220	1,002	563
Other income	42	32	118	83
Total revenues	572	416	1,692	1,124
Interest expense	128	49	340	109
Total net revenues	444	367	1,352	1,015
Non-interest expenses				
Execution, clearing and distribution fees	54	55	185	158
Employee compensation and benefits	31	32	97	92
Occupancy, depreciation and amortization	4	4	13	13
Communications	4	4	12	12
General and administrative	60	47	177	130
Customer bad debt	(1)	-	2	2
Total non-interest expenses	152	142	486	407
Income before income taxes	$ 292	$ 225	$ 866	$ 608

Three Months Ended September 30, 2018 (“current quarter”) compared to the Three Months Ended September 30, 2017 (“prior year quarter”)

Electronic brokerage total net revenues, for the current quarter, increased $77 million, or 21%, compared to the prior year quarter, to $444 million, due to higher net interest income, other income and commissions.

Commissions, for the current quarter, increased $3 million, or 2%, compared to the prior year quarter, to $167 million, driven by higher customer options volume and higher DARTs in stocks, partially offset by lower average order sizes across most products. Total customer options volumes increased 8%, while futures contract and stock share volumes decreased 4% and 20%, respectively, compared to the prior year quarter. The decline in stock trade volumes was due to lighter trading in low-priced stocks, and an increase in the proportion of trading in higher-priced stocks. As a result of this shift, while the number of shares traded declined, the DARTs and commissions on stocks both rose. Total DARTs for cleared and execution-only customers, for the current quarter, increased 10% to 763 thousand, compared to 695 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 8% to 696 thousand, compared to 646 thousand for the prior year quarter. Average commission per DART for cleared customers, for the current quarter, decreased by 5% to $3.78, compared to $3.96 for the prior year quarter, reflecting smaller average order sizes across most products.

Net interest income, for the current quarter, increased $64 million, or 37%, compared to the prior year quarter, to $235 million, driven by a $1.6 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, a $5.2 billion increase in average customer margin loans, and a 0.77% increase in the average Federal Funds effective rate to 1.92%, compared to the prior year quarter. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year quarter, in part, as we passed along more interest to our customers. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

Other income, for the current quarter, increased $10 million, or 31%, compared to the prior year quarter, to $42 million, mainly driven by a $3 million increase in net gains from other investments, a $3 million increase in FDIC sweep fee income, and increases in account activity fee income, order flow income, and market data fee income.

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Non-interest expenses, for the current quarter, increased $10 million, or 7%, compared to the prior year quarter, to $152 million. Within non-interest expenses, execution, clearing and distribution fees decreased $1 million, or 2%, driven by lower customer trading volumes in futures and stocks, which decreased 4% and 20%, respectively, compared to the prior year quarter. Employee compensation and benefits expenses, for the current quarter, decreased $1 million, or 3%, mainly due to regular adjustments to year-to-date budgeting for bonus accruals in the current quarter, compared to the prior year quarter. General and administrative expenses increased, $13 million, or 28%, mainly due to the redeployment of staff from market making to electronic brokerage activities, which accounted for $5 million of this increase. In addition, general and administrative expenses for the current quarter include higher professional services fees and expenses related to legal and regulatory matters, compared to the prior year quarter. As a percentage of total net revenues, non-interest expenses were 34% for the current quarter and 39% for the prior year quarter.

Income before income taxes, for the current quarter, increased $67 million, or 30%, compared to the prior year quarter, to $292 million. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes was 66% for the current quarter and 61% for the prior year quarter.

Electronic brokerage operating results, for the current quarter, excluding the net mark-to-market gains and losses on our U.S. government securities portfolio, compared to the prior year quarter, were as follows: net revenues were $443 million, up 21%; income before income taxes was $291 million, up 30%; and pre-tax profit margin increased to 66% for the current quarter from 61% for the prior year quarter.

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Nine Months Ended September 30, 2018 ("current nine-month period") compared to the Nine Months Ended September 30, 2017 ("prior year nine-month period")

Electronic brokerage total net revenues, for the current nine-month period, increased $337 million, or 33%, compared to the prior year nine-month period, to $1,352 million, due to higher net interest income, commissions, and other income.

Commissions, for the current nine-month period, increased $94 million, or 20%, compared to the prior year nine-month period, to $572 million, driven by higher customer trading volumes in options and futures and continued customer account growth. Total customer options and futures contract volumes both increased 22%, while stock share volumes remained unchanged compared to the prior year nine-month period. Total DARTs for cleared and execution-only customers, for the current nine-month period, increased 23% to 832 thousand, compared to 674 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 23% to 769 thousand, compared to 625 thousand for the prior year nine-month period. Average commission per DART for cleared customers, for the current nine-month period, decreased by 2% to $3.90, compared to $3.99 for the prior year nine-month period, reflecting smaller average order sizes across most products.

Net interest income, for the current nine-month period, increased $208 million, or 46%, compared to the prior year nine-month period, to $662 million, driven by a $3.1 billion increase in average customer credit balances, a portion of which were invested in interest-bearing U.S. government securities, a $7.6 billion increase in average customer margin loans, and a 0.77% increase in the average Federal Funds effective rate to 1.70%, compared to the prior year nine-month period. As a result of the increases in the Federal Funds effective rate, interest expense on customer credit balances denominated in U.S. dollars increased from the prior year nine-month period, in part, as we passed along more interest to our customers. The increase in benchmark rates also drove higher interest income earned on the investment of customer segregated cash and on margin lending to customers.

Other income, for the current nine-month period, increased $35 million, or 42%, compared to the prior year nine-month period, to $118 million, mainly driven by a $10 million increase in net gains from other investments, a $6 million increase in FDIC sweep fee income, a $5 million increase in market data fee income, a $4 million higher net mark-to-market gain on our U.S. government securities portfolio (a gain of $1 million for the current nine-month period, compared to a loss of $3 million in the prior year nine-month period), and increases in order flow income, risk exposure fee income, and account activity fee income, compared to the prior year nine-month period.

Non-interest expenses, for the current nine-month period, increased $79 million, or 19%, compared to the prior year nine-month period, to $486 million. Within non-interest expenses, execution, clearing and distribution fees increased $27 million, or 17%, driven by higher customer trading volumes in options and futures, which both increased 22%, compared to the prior year nine-month period. A 22% increase in the number of employees providing services to the electronic brokerage segment led to increased employee compensation and benefits expenses of $5 million, or 5%, and increased general and administrative expenses of $47 million, both of which, in part, reflect a redeployment of staff from market making to electronic brokerage activities, which accounted for $26 million of this increase. In addition, general and administrative expenses for the current nine-month period include higher professional services fees and expenses related to legal and regulatory matters, compared to the prior year nine-month period. As a percentage of total net revenues, non-interest expenses were 36% for the current nine-month period and 40% for the prior year nine-month period.

Income before income taxes, for the current nine-month period, increased $258 million, or 42%, compared to the prior year nine-month period, to $866 million. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes was 64% for the current nine-month period and 60% for the prior year nine-month period.

Electronic brokerage operating results, for the current nine-month period, excluding the net mark-to-market gains and losses from our U.S. government securities portfolio, compared to the prior year nine-month period, were as follows: net revenues were $1,351 million, up 33%; income before income taxes was $865 million, up 42%; and pre-tax profit margin increased to 64% for the current nine-month period from 60% for the prior year nine-month period.

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Market Making

The following table sets forth the results of our market making operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Revenues				
Interest income	$ 11	$ 23	$ 36	$ 65
Trading gains	7	11	32	26
Other income	2	11	7	14
Total revenues	20	45	75	105
Interest expense	4	15	16	44
Total net revenues	16	30	59	61
Non-interest expenses				
Execution, clearing and distribution fees	3	6	12	28
Employee compensation and benefits	2	7	9	20
Occupancy, depreciation and amortization	-	-	-	2
Communications	1	2	1	6
General and administrative	3	4	12	40
Total non-interest expenses	9	19	34	96
Income (loss) before income taxes	$ 7	$ 11	$ 25	$ (35)

Three Months Ended September 30, 2018 (“current quarter”) compared to the Three Months Ended September 30, 2017 (“prior year quarter”)

As previously described, in early 2017 we started the process of winding down our options market making operations and the market making results described below were impacted by such pull-back.

Market making total net revenues, for the current quarter, decreased $14 million, or 47%, compared to the prior year quarter, to $16 million, primarily due to lower trading gains and other income.

Trading gains, for the current quarter, decreased $4 million, or 36%, compared to the prior year quarter, to $7 million. Net interest income was $7 million for the current quarter and $8 million for the prior year quarter. Other income, decreased $9 million, or 82%, compared to the prior year quarter, to $2 million, mainly due to the non-recurrence of an $11 million gain recognized on the transfer of our U.S. market making business in the prior year quarter.

Non-interest expenses, for the current quarter, decreased $10 million, or 53%, compared to the prior year quarter, to $9 million. Within non-interest expenses, execution, clearing and distribution fees decreased $3 million, or 50%, on lower trading volumes in options and futures. Employee compensation and benefits expenses decreased $5 million, or 71%, and general and administrative expenses decreased $1 million, or 25%. As a percentage of total net revenues, non-interest expenses were 56% for the current quarter and 63% for the prior year quarter. Income before income taxes, for the current quarter, decreased $4 million, or 36%, compared to the prior year quarter, to $7 million.

Nine Months Ended September 30, 2018 (“current nine-month period”) compared to the Nine Months Ended September 30, 2017 (“prior year nine-month period”)

As previously described, in early 2017 we started the process of winding down our options market making operations and the market making results described below were impacted by such pull-back.

Market making total net revenues, for the current nine-month period, decreased $2 million, or 3%, compared to the prior year nine-month period, to $59 million, primarily due to lower other income and net interest income, partially offset by higher trading gains.

Trading gains, for the current nine-month period, increased $6 million, or 23%, compared to the prior year nine-month period, to $32

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million, reflecting favorable conditions in the few select markets in which we continue to operate. Net interest income was $20 million for the current nine-month period and $21 million for the prior year nine-month period. Other income, decreased $7 million, or 50%, compared to the prior year nine-month period, to $7 million, mainly due to the non-recurrence of an $11 million gain recognized on the transfer of our U.S. market making business in the prior year nine-month period.

Non-interest expenses, for the current nine-month period, decreased $62 million, or 65%, compared to the prior year nine-month period, to $34 million. Within non-interest expenses, execution, clearing and distribution fees decreased $16 million, or 57%, on lower trading volumes in options and futures. Employee compensation and benefits expenses decreased $11 million, or 55%, and general and administrative expenses decreased $28 million, or 70%, primarily due to the non-recurrence of $24 million in one-time exit costs related to the wind-down of our options market making business recognized in the prior year nine-month period. As a percentage of total net revenues, non-interest expenses were 58% for the current nine-month period and 157% for the prior year nine-month period. Income before income taxes, for the current nine-month period, increased $60 million, compared to the prior year nine-month period, to $25 million.

Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of cash, 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, to a lesser extent, receivables from clearing houses for settlement of securities transactions, and securities purchased under agreements to resell. As of September 30, 2018, total assets were $62.1 billion of which approximately $61.7 billion, or 99.4% were considered liquid.

Daily monitoring of liquidity needs and available collateral levels is undertaken to help ensure that an appropriate liquidity cushion, in the form of unpledged collateral, is maintained at all times. Our ability to quickly reduce funding needs by balance sheet contraction without adversely affecting our core businesses and to pledge additional collateral in support of secured borrowings is continuously evaluated to ascertain the adequacy of our capital base.

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. 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.

Liability balances, as of September 30, 2018, in connection with our payables to customers were higher than the average monthly balances during the quarter. Liability balances, as of September 30, 2018, in connection with our securities loaned and short-term borrowings were lower than their respective average monthly balances during the current quarter.

Cash and cash equivalents held by our non U.S. operating companies as of September 30, 2018 were $678 million ($590 million as of December 31, 2017). These funds are primarily intended to finance each individual operating company's local operations, and thus would not be available to fund U.S. domestic operations unless repatriated through payment of dividends to IBG LLC. In September 2018 a dividend of $54 million was paid from one of our non-U.S. subsidiaries. As of September 30, 2018, we had no intention to repatriate further amounts from non U.S. operating companies. With the enactment of the Tax Act, we recognized a $62 million 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 company, 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 9% to $6.9 billion as of September 30, 2018 from $6.3 billion as of September 30, 2017. This increase is attributable to total comprehensive income, partially offset by distributions and dividends paid during the last four quarters.

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Cash Flows

The following table sets forth our cash flows from operating activities, investing activities and financing activities for the periods indicated:

	Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Net cash provided by operating activities	$ 2,764	$ 2,295
Net cash used in investing activities	(43)	(14)
Net cash used in financing activities	(341)	(294)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(74)	66
Increase in cash, cash equivalents, and restricted cash	$ 2,306	$ 2,053

Our cash flows from operating activities are largely a reflection of the changes in customer credit and margin loan balances in our electronic brokerage business, and of the size and composition of the remaining trading positions held by our market making subsidiaries. Our cash flows from investing activities are primarily related to other investments, capitalized internal software development, purchases and sales of memberships 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, or where we can influence exchanges to provide competing products at better prices using sophisticated technology. Our cash flows from financing activities are comprised of short term borrowings and capital transactions. 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, 2018: Our cash, cash equivalents, and restricted cash increased by $2,306 million to $10.6 billion for the nine months ended September 30, 2018. We raised $2,764 million in net cash from operating activities. We used net cash of $384 million in our investing and financing activities, primarily for distributions to noncontrolling interests, dividends paid to our common stockholders, and payments made under the Tax Receivable Agreement, partially offset by higher short term borrowings. Investing activities mainly consisted of a strategic investment and purchases of property, equipment, and intangible assets.

Nine Months Ended September 30, 2017: Our cash, cash equivalents, and restricted cash increased by $2,053 million to $9.6 billion for the nine months ended September 30, 2017. We raised $2,295 million in net cash from operating activities. We used net cash of $308 million in our investing and financing activities, primarily for repayment of short-term borrowing, distributions to noncontrolling interests, dividends paid to our common stockholders, and payments made under the Tax Receivable Agreement.

Regulatory Capital Requirements

Our principal operating companies are subject to separate regulation and capital requirements in the U.S. and other jurisdictions. IB LLC and TH LLC are registered U.S. broker dealers and their primary regulators include the SEC, the Chicago Board Options Exchange, and Financial Industry Regulatory Authority ("FINRA"). Additionally, IB LLC is a registered futures commission merchant regulated by the Commodity Futures Trading Commission ("CFTC") and the Chicago Mercantile Exchange. IB LLC is also a registered U.S. forex dealer member regulated by the National Futures Association ("NFA"). IBKRFS is registered to do business in Switzerland as a securities dealer and is regulated by the Swiss Financial Market Supervisory Authority. Our various other operating companies are similarly regulated. See the notes to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulated operating companies.

As of September 30, 2018, aggregate excess regulatory capital for all of the operating companies was $5.5 billion, and all of the operating companies were in compliance with their respective regulatory capital requirements.

	Net Capital/ Eligible Equity	Requirement	Excess
	(in millions)		
IB LLC	$ 4,699	$ 514	$ 4,185
TH LLC	206	-	206
IBKRFS	590	89	501
Other regulated Operating Companies	773	132	641
	$ 6,268	$ 735	$ 5,533

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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 $23 million and $16 million for the nine-months ended September 30, 2018 and 2017, 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 in interest rates will cause mark-to-market losses on these securities, which are recovered 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 and OneChicago LLC. In addition, in June 2018, we consummated a strategic investment in Tiger Brokers, an online stock brokerage established for Chinese retail and institutional clients.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own.

As of September 30, 2018, 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

Principles of Consolidation, including Noncontrolling Interests

The condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, we exert control over the Group's operations. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC Topic 810, "Consolidation," we consolidate the Group's consolidated financial statements and record as noncontrolling interest the interests in the Group that we do not own.

We are the sole managing member of IBG LLC and, as such, operate and control all of the business and affairs of IBG LLC and its subsidiaries and as such, consolidate IBG LLC's financial results into our financial statements. We hold approximately 18.1% ownership interest in IBG LLC. Holdings is owned by the original members of IBG LLC and holds approximately 81.9% ownership interest in IBG LLC. Our current share of IBG LLC's net income is approximately 18.1%.

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Our policy is to consolidate all other entities in which we own more than 50% unless we do not have control. All inter company balances and transactions have been eliminated.

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 the 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 doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, costs associated with exit or disposal activities, and contingency reserves.

Valuation of Financial Assets and Financial Liabilities

Due to the nature of our operations, substantially all of our financial assets, comprised of financial instruments owned, securities purchased under agreements to resell, securities borrowed, receivable from customers, and receivables from brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are assets which are short term in nature and are reported at amounts that approximate fair value. Similarly, all of our financial liabilities that arise from financial instruments sold but not yet purchased, securities sold under agreements to repurchase, securities loaned, payables to customers, and payables to brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are liabilities which are short-term in nature and are reported at amounts that approximate fair value. Our long and short positions are mainly valued at the last consolidated trade price at the close of regular trading hours, in their respective markets. Given that we manage a globally integrated market making portfolio, we may have offsetting positions in securities and commodities that trade on different exchanges that close at different times of the trading day. As a result, there may be large and anomalous swings in the value of our positions daily and, accordingly, in our earnings in any period. This is especially true on the last business day of each calendar quarter or year, although such swings tend to come back into equilibrium on the first business day of the succeeding calendar quarter or year.

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 the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under our stock-based compensation plans, with no adjustments to net income available for common stockholders for dilutive potential common shares.

Stock Based Compensation

We follow FASB ASC Topic 718, “Compensation - Stock Compensation” (“ASC Topic 718”), to account for our stock based compensation plans. ASC Topic 718 requires all share based payments to employees to be recognized in the condensed 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 the stock based compensation plans are subject to the plans' post-employment provisions in the event an employee ceases employment with us. The plans provide that employees who discontinue employment with us 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.

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, in accordance with FASB ASC Topic 450, "Contingencies." 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.

We have been from time to time subject to certain pending and legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. We cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, we cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred. As of September 30, 2018, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period. As of September 30, 2018 and December 31, 2017, reserves provided for potential losses related to litigation matters were not material.

Income Taxes

We account for income taxes in accordance with FASB ASC Topic 740, “Income Taxes” (“ASC Topic 740”). 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. The enactment of the Tax Act on December 22, 2017 significantly revised the U.S corporate income tax law by, among other things, reducing the corporate income tax rate from 35% to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. See Note 11 to the condensed consolidated financial statements elsewhere in this report. We record tax liabilities in accordance with 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.

We recognize interest related to income tax matters as interest income or interest expense and penalties related to income tax matters as income tax expense.

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Recently Issued Accounting Pronouncements

Following is a summary of recently issued FASB Accounting Standards Updates ("ASUs") that have affected or may affect our condensed consolidated financial statements:

	Affects	Status
ASU 2016-02	Leases (Topic 842): Requires the recognition of a right-of-use asset and a lease liability for leases previously classified as operating lease in the statements of financial condition.	Effective for fiscal years beginning after December 15, 2018.
ASU 2016-13	Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-04	Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-08	Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Amending the amortization period for certain purchased callable debt securities held at a premium.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-11	Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815): changing the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-02	Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.	Effective for fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018-03	Technical Correction and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.	Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years beginning after June 15, 2018.
ASU 2018-07	Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-08	Not for Profit Entities (Topic 958) and Other Expenses - Contributions (Topic 720): Clarifying the Scope and the Accounting for Contributions Received and Contributions Made.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-10	Leases (Topic 842): Codification Improvements.	Effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods.
ASU 2018-11	Leases (Topic 842): Targeted Improvements.	Effective for fiscal years beginning after December 15, 2018, including

		interim periods within those annual periods.
ASU 2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.
ASU 2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.	Effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods.

Adoption of the ASUs that became effective during 2017 and 2018, prior to the issuance of the Company's condensed consolidated financial statements, had no material effect on these financial statements, except as described in the notes to condensed consolidated financial statements in Item 1 elsewhere in this document.

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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 which impact our variable rate debt obligations, if any, 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 activities in the market making segment, 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 affiliates, i.e., our non U.S. brokerage affiliates and information technology affiliates, 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 Chairman and our steering committee, which is comprised of senior executives of our various companies. Our strategy 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 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.

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.

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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 throughout each day on a continuous basis. 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 and reported in the corporate segment. 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 $ 0.977 to $ 0.969, or 0.84%, as of September 30, 2018 compared to September 30, 2017. As of September 30, 2018, approximately 30% of our equity was denominated in currencies other than the U.S. dollar.

The table below shows a comparison of the U.S. dollar equivalent of the GLOBAL as of September 30, 2018 and 2017.

		As of 9/30/2017				As of 9/30/2018				
Currency	Composition	FX Rate	GLOBAL in USD Equiv.	% of Comp.	Net Equity (in USD millions)	FX Rate	GLOBAL in USD Equiv.	% of Comp.	Net Equity (in USD millions)	CHANGE in % of Comp.
USD	0.68	1.0000	0.680	69.6%	$ 4,394	1.0000	0.680	70.2%	$ 4,847	0.6%
EUR	0.09	1.1815	0.106	10.9%	687	1.1607	0.104	10.8%	744	-0.1%
JPY	4.41	0.0089	0.039	4.0%	253	0.0088	0.039	4.0%	276	0.0%
GBP	0.02	1.3398	0.027	2.7%	173	1.3031	0.026	2.7%	186	-0.1%
HKD	0.14	0.1280	0.018	1.8%	116	0.1277	0.018	1.8%	127	0.0%
INR	1.10	0.0153	0.017	1.7%	109	0.0138	0.015	1.6%	108	-0.2%
CHF	0.02	1.0328	0.021	2.1%	133	1.0183	0.020	2.1%	145	0.0%
CAD	0.02	0.8019	0.016	1.6%	104	0.7747	0.015	1.6%	110	0.0%
CNH	0.10	0.1504	0.015	1.5%	97	0.1454	0.015	1.5%	104	0.0%
AUD	0.02	0.7834	0.016	1.6%	101	0.7224	0.014	1.5%	103	-0.1%
MXN	0.17	0.0548	0.009	1.0%	60	0.0534	0.009	0.9%	65	0.0%
SEK	0.05	0.1227	0.006	0.6%	40	0.1125	0.006	0.6%	40	0.0%
NOK	0.03	0.1256	0.004	0.4%	24	0.1228	0.004	0.4%	26	0.0%

DKK	0.02	0.1588	0.003	0.3%	21	0.1556	0.003	0.3%	22	0.0%
			0.977	100.0%	$ 6,312		0.969	100.0%	$ 6,903	0.0%

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.

Interest Rate Risk

We had no variable rate debt outstanding as of September 30, 2018.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies, on cash balances above $10 thousand (or equivalent) in securities accounts holding more 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, 2018, 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 $19 million over the first year and $21 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, 2018, 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 $10 million over the first year and $21 million on an annualized basis, assuming the full effect of reinvestment at lower rates.

We also face interest rate risk due to positions carried in our market making business 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 market making business 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.

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 firms 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, 2018, we had $30.9 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

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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.

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 that 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 the daily price changes of the underlying assets and determines the VaR as the calculated loss that occurs at the 99th 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.

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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 that has materially affected, or is likely to materially affect, our internal control over financial reporting.

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 March 1, 2018 except as updated by this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 below and in Note 12 to the unaudited condensed consolidated financial statements.

Pending Regulatory Inquiries

Our businesses are heavily regulated by state, federal and foreign regulatory agencies as well as numerous exchanges and self regulatory organizations. Most of our companies are regulated under some or all of the following: state securities laws, U.S. and foreign securities, commodities and financial services laws and the rules of the more than 120 exchanges, market centers and self regulatory organizations of which one or more of our companies may be members. In the current era of dramatically heightened regulatory scrutiny of financial institutions, we have incurred sharply increased compliance costs, along with the industry as a whole. Increased regulation also creates increased barriers to entry. We have built and continue to build human and automated infrastructure to handle increased regulatory scrutiny, which provides us with a possible advantage over potential newcomers to the business.

We receive thousands of regulatory inquiries each year in addition to being subject to frequent regulatory examinations. The great majority of these inquiries do not lead to fines or any further action against us. Most often, regulators do not inform us as to when and if an inquiry has been concluded. We are currently the subject of active or dormant regulatory inquiries regarding subjects including, but not limited to: audit trail reporting, trade reporting, best execution and order execution procedures, short sales, margin lending, anti money laundering, procedures for trading and handling low-priced securities, procedures for accounts introduced by financial advisors and other referrers, technology development practices, business continuity planning and other topics of recent regulatory interest. The Company has procedures for evaluating whether potential regulatory fines are probable, estimable and material and for updating its contingency reserves and disclosures accordingly. In the current climate, we expect to pay significant and increasing regulatory fines on various topics on an ongoing basis, as other regulated financial services businesses do. The amount of any fines, and when and if they will be incurred, typically is impossible to predict given the nature of the regulatory process.

ITEM 1A. RISK FACTORS

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 March 1, 2018.

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 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 2018 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, 2018, the Company issued 1,537,727 shares of Class A common stock (with a fair value of $94 million) to Holdings, for sale for the benefit of, 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 are to be sold for the benefit of certain of the members of Holdings who elected to redeem a portion of their Holdings membership interests in open market transactions pursuant to one or more Rule 10b5-1 trading plans (collectively, the ‘‘Plans’’). A portion of the acquired shares was sold during the current quarter pursuant to the Plans. The remaining shares are held for sale under certain conditions, pursuant to the Plans, in open market transactions. All sales made pursuant to the Plans are disclosed publicly in accordance with applicable securities laws, rules and regulations through appropriate filings with the SEC, as applicable.

Certain officers and directors are among the members of Holdings who have elected to redeem a portion of their Holdings membership interests and therefore have an interest in the proceeds of sale of 1,000,000 shares of the Class A common stock to be sold pursuant to the Plans. In addition, certain employees of the Company and its subsidiaries also elected the redemption of a portion

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of their membership interests in Holdings and therefore have an interest in the balance of the shares to be sold under the Plans and/or distributed by Holdings. Neither Mr. Thomas Peterffy nor his affiliates have 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 July 27, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. Exhibits

Exhibit Number	Description
3.1	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).**
3.2	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).**
10.1	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).**
10.2	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).**
10.3	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).**
10.4	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).**
10.5	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).**+
10.6	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 12, 2012).**+
10.7	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 30, 2015 filed by the Company on November 9, 2015).**
10.8	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 30, 2015 filed by the Company on November 9, 2015).**
10.9	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).** +
11.1	Statement Re; Computation of Earnings per Common Share (the calculation of per share earnings is disclosed in Part I, Item 1, Note 4 to the Condensed Consolidated Financial Statements “Equity and Earnings per Share” and is omitted in accordance with Item 601 Section (b)(11) of Regulation S K).
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
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*

** 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, 2018, 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.

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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 7, 2018