

## Interactive Brokers LLC Rated 'A-/A-2'; Outlook Stable

### *Overview*

- We consider Interactive Brokers LLC (IB) a core operating subsidiary of IBG LLC.
- We are assigning IB an 'A-/A-2' counterparty credit rating.
- Future ratings actions on IB depend largely on our ratings on its parent, and to a lesser extent its stand-alone credit profile.

### *Rating Action*

On May 24, 2010, Standard & Poor's Ratings Services assigned its 'A-/A-2' counterparty credit rating to IB. The outlook is stable.

### *Rationale*

The ratings on IB are based on our considering it a core operating subsidiary of IBG LLC, as well as on IB's solid financial profile and successful but undiversified niche franchise.

We consider IB a core subsidiary of IBG. Although IB is by far the smaller of IBG's two main operating subsidiaries, in our opinion IB contributes important revenue and business-line diversification to the consolidated entity. In our opinion, management is fully committed to this business. We believe it would be very difficult for IBG to sell IB because IB's biggest competitive advantage is that it runs on the same proprietary systems as IBG's market-making business.

The basis of our stand alone rating on IB is its solid financial profile. This is based on what we consider strong capitalization, adequate liquidity, and solid profitability. In addition, IB has little credit or market risk exposure because it maintains a very simple, low-risk, and low-leverage balance sheet.

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#### *Publication Date*

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IB has developed a good niche position in the brokerage industry providing market access, clearing, and custody services primarily to institutional clients and some sophisticated retail investors.

IBG developed IB using the systems and support built and maintained for its market-making business. This allows IB both to be a low-cost provider and to deliver a very advanced product. IB has grown substantially, so that as of first-quarter 2010 it executed approximately 328,000 daily average revenue trades and served approximately 140,000 clients. However, with only \$16.7 billion in total client assets as of March 31, 2010, IB remains a relatively small niche player in the industry. By offering only market access, IB has a much narrower franchise than most of the firms it competes against, including the firms with dominant market shares. Although we believe this limits the firm's exposure to credit, market, and compliance risks, it also limits its competitive position and business and revenue diversification.

### ***Outlook***

We expect IBG to remain committed to IB and to treat it as a core element of its franchise. We also expect IB to maintain a stand-alone credit profile that supports the rating. If the parent causes us to reconsider its commitment to IB or if IB fails to maintain its stand-alone financial profile, we would lower the ratings. We could also either lower or raise the ratings based on any changes in our view of the consolidated IBG's credit quality.

### ***Related Criteria And Research***

- "Rating Securities Companies," June 9, 2004
- "IBG LLC," March 4, 2010

### ***Ratings List***

New Rating

Interactive Brokers LLC

Counterparty Credit Rating      A-/Stable/A-2

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

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