Interactive Brokers Group, Inc.
Form 10-Q
August 08, 2017
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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 June 30, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "accelerated filer", "large 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 (Do not check if a smaller reporting company)	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 August 4, 2017, there were 71,465,894 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 JUNE 30, 2017

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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)	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 2,115	$ 1,925
Cash and securities - segregated for regulatory purposes	24,187	24,017
Securities borrowed	3,895	3,629
Securities purchased under agreements to resell	366	111
Financial instruments owned, at fair value:		
Financial instruments owned	1,649	2,104
Financial instruments owned and pledged as collateral	924	1,933
Total financial instruments owned, at fair value	2,573	4,037
Receivables:		
Customers, less allowance for doubtful accounts of $95 and $97 as of June 30, 2017 and December 31, 2016	22,833	19,409
Brokers, dealers and clearing organizations	1,164	1,040
Interest	59	57
Total receivables	24,056	20,506
Other assets	405	448
Total assets	$ 57,597	$ 54,673
Liabilities and equity		
Short-term borrowings	$ 9	$ 74
Securities loaned	3,632	4,293

Financial instruments sold, but not yet purchased, at fair value	974	2,145
Payables:		
Customers	45,950	41,731
Brokers, dealers and clearing organizations	449	239
Affiliate	286	285
Accounts payable, accrued expenses and other liabilities	92	80
Interest	14	6
Total payables	46,791	42,341
Total liabilities	51,406	48,853
Commitments, contingencies and guarantees (see Note 11)		
Equity		
Stockholders' equity		
Common stock, $0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 70,384,414 and 68,119,412 shares, Outstanding – 70,251,034 and 67,984,973 shares as of June 30, 2017 and December 31, 2016	1	1
Class B – Authorized, Issued and Outstanding – 100 shares as of June 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	807	775
Retained earnings	236	203
Accumulated other comprehensive income, net of income taxes of $1 and $0 as of June 30, 2017 and December 31, 2016	8	(2)
Treasury stock, at cost, 133,380 and 134,439 shares as of June 30, 2017 and December 31, 2016	(3)	(3)
Total stockholders' equity	1,049	974
Noncontrolling interests	5,142	4,846
Total equity	6,191	5,820
Total liabilities and equity	$ 57,597	$ 54,673

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 June 30,		Six Months Ended June 30,	
(in millions, except share or per share amounts)	2017	2016	2017	2016
Revenues				
Trading gains	$ 13	$ 34	$ 15	$ 86
Commissions	160	152	314	318
Interest income	206	144	383	289
Other income	59	57	135	201
Total revenues	438	387	847	894
Interest expense	51	18	86	36
Total net revenues	387	369	761	858
Non-interest expenses				
Execution and clearing	63	59	124	121
Employee compensation and benefits	66	58	128	116
Occupancy, depreciation and amortization	10	13	23	25
Communications	7	9	15	16
General and administrative	36	14	52	27
Customer bad debt	1	3	2	3
Total non-interest expenses	183	156	344	308
Income before income taxes	204	213	417	550
Income tax expense	17	13	35	40
Net income	187	200	382	510
Less net income attributable to noncontrolling interests	164	173	335	450
Net income available for common stockholders	$ 23	$ 27	$ 47	$ 60
Earnings per share				
Basic	$ 0.33	$ 0.41	$ 0.68	$ 0.93
Diluted	$ 0.32	$ 0.40	$ 0.67	$ 0.91
Weighted average common shares outstanding				
Basic	69,087,853	64,967,364	68,539,526	64,476,421
Diluted	70,063,427	66,470,913	69,613,567	65,863,408

Comprehensive income				
Net income available for common stockholders	$ 23	$ 27	$ 47	$ 60
Other comprehensive income				
Cumulative translation adjustment, before income taxes	6	(3)	10	3
Income taxes related to items of other comprehensive income	—	—	—	—
Other comprehensive income (loss), net of tax	6	(3)	10	3
Comprehensive income available for common stockholders	$ 29	$ 24	$ 57	$ 63
Comprehensive income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests	$ 164	$ 173	$ 335	$ 450
Other comprehensive income (loss) - cumulative translation adjustment	31	(16)	50	17
Comprehensive income attributable to noncontrolling interests	$ 195	$ 157	$ 385	$ 467

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)

	Six Months Ended June 30,	
(in millions)	2017	2016
Cash flows from operating activities		
Net income	$ 382	$ 510
Adjustments to reconcile net income to net cash from operating activities		
Deferred income taxes	15	18
Depreciation and amortization	12	12
Employee stock plan compensation	25	22
Unrealized loss on other investments, net	(1)	7
Bad debt expense	2	3
Impairment loss	21	—
Change in operating assets and liabilities		
Cash and securities - segregated for regulatory purposes	(170)	(3,948)
Securities borrowed	(266)	164
Securities purchased under agreements to resell	(255)	82
Financial instruments owned, at fair value	1,464	(869)
Receivables from customers	(3,426)	1,910
Other receivables	(126)	(654)
Other assets	5	(4)
Securities loaned	(661)	376
Financial instruments sold, but not yet purchased, at fair value	(1,171)	266
Payable to customers	4,219	2,235
Other payables	231	(118)
Net cash provided by operating activities	300	12
Cash flows from investing activities		
Purchases of other investments	—	(6)
Distributions received and proceeds from sales of other investments	—	38
Purchase of property, equipment and intangible assets	(10)	(14)
Net cash (used in) provided by investing activities	(10)	18
Cash flows from financing activities		

Short-term borrowings, net	(65)	8
Dividends paid to stockholders	(14)	(13)
Distributions to noncontrolling interests	(82)	(160)
Repurchases of common stock for employee tax withholdings under stock incentive plans	(21)	(26)
Proceeds from the sale of treasury stock	21	—
Payments made under the Tax Receivable Agreement	—	(17)
Net cash used in financing activities	(161)	(208)
Effect of exchange rate changes on cash and cash equivalents	61	20
Net increase (decrease) in cash and cash equivalents	190	(158)
Cash and cash equivalents at beginning of period	1,925	1,601
Cash and cash equivalents at end of period	$ 2,115	$ 1,443
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 77	$ 35
Cash paid for taxes, net	$ 17	$ 6
Non-cash financing activities		
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	$ 28	$ 25
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	$ (28)	$ (25)
Non-cash distribution to noncontrolling interests	$ —	$ (5)

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

Six Months Ended June 30, 2017 and 2016

(Unaudited)

	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
Common stock distributed pursuant to stock incentive plans	2,265,002						—		—
Compensation for stock grants vesting in the future			4				4	21	25
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					(14)		(14)		(14)
Distributions from IBG LLC to noncontrolling interests							—	(82)	(82)
Adjustments for changes in proportionate ownership in IBG LLC			28				28	(28)	—
					47	10	57	385	442

Comprehensive income									
Balance, June 30, 2017	70,384,414	$ 1	$ 807	$ (3)	$ 236	$ 8	$ 1,049	$ 5,142	$ 6,191

(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, 2016	64,121,150	$ 1	$ 718	$ (3)	$ 145	$ 2	$ 863	$ 4,481	$ 5,344
Common stock distributed pursuant to stock incentive plans	2,395,210						—		—
Compensation for stock grants vesting in the future			3				3	19	22
Repurchases of common stock for employee tax withholdings under stock incentive plans				(26)			(26)		(26)
Dividends paid to stockholders					(13)		(13)		(13)
Distributions from IBG LLC to noncontrolling interests							—	(165)	(165)
Adjustments for changes in proportionate ownership in IBG LLC			25				25	(25)	—
Comprehensive income					60	3	63	467	530
Balance, June 30, 2016	66,516,360	$ 1	$ 746	$ (29)	$ 192	$ 5	$ 915	$ 4,777	$ 5,692

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 17.1% 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 and market maker 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, England, Switzerland, Liechtenstein, India, China (Hong Kong and Shanghai), Japan, and Australia. As of June 30, 2017, the Company had 1,206 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 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 (India) Private Limited ("IBI"); Interactive Brokers Australia Pty Limited and its subsidiary, Interactive Brokers Australia Nominees Pty Limited (collectively, "IBA"); IB Business Services (Shanghai) Company Limited ("IBBSS"); Timber Hill LLC ("TH LLC"); Timber Hill Europe AG and its subsidiary, Timber Hill (Liechtenstein) AG (collectively, "THE"); Timber Hill Australia Pty Limited ("THA"); Timber Hill Canada Company ("THC"); Interactive Brokers Financial Products S.A. ("IBFP"); Interactive Brokers Hungary KFT ("IBH"); Interactive Brokers Software Services Estonia OU ("IBEST"); Interactive Brokers Software Services Russia ("IBRUS"); Interactive Brokers Software Services (India) Private Limited ("IBSSI"); and IB Exchange Corp. ("IBEC") and its subsidiaries, Interactive Brokers Corp. ("IB Corp"), Covestor, Inc. and its subsidiary, Covestor Limited (collectively, "Covestor"), and Greenwich Advisor Compliance Services Corp. ("GACS").

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 on the world's leading exchanges and market centers, primarily in exchange traded equities, equity options and equity index options and futures (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 13). 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 2016 Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 28, 2017. The condensed consolidated financial information as of December 31, 2016 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.

Principles of Consolidation, including Noncontrolling Interests

These condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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.

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 we previously announced, we entered into a definitive transaction to transfer our U.S. options market making operations to Two Sigma Securities, LLC. This transaction is subject to usual and customary closing conditions. The Company expects to phase out these operations substantially over the coming months and expects to report discontinued operations when it meets the criteria under FASB Topic ASC 205-20, "Discontinued Operations."

The Company estimates that it may be exposed to approximately $25 million in one-time restructuring costs. The estimate includes approximately $2 million of future cash expenditures, which would comprise primarily severance costs for projected employee terminations, and approximately $23 million of non-cash expenditures, consisting of impairment of the carrying value of certain exchange trading rights and stock-based compensation.

During the six months ended June 30, 2017, the Company recorded restructuring costs of approximately $23 million consisting of the impairment of exchange trading rights and severance resulting from obligations related to employment terminations.

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.

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 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 discount certificates, 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.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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 in 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.

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 $3.5 billion and $7.4 billion as of June 30, 2017 and December 31, 2016, respectively, and securities purchased under agreements to resell in the amount of $13.8 billion and $11.0 billion as of June 30, 2017 and December 31, 2016, 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.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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

Securities purchased under agreements to resell, 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. 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").

Investments

The Company makes certain strategic investments related to its business and accounts for these investments under the cost method of accounting or under the equity method of accounting as required under FASB ASC Topic 323, "Investments - Equity Method and Joint Ventures." 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, $23 million as of June 30, 2017 ($22 million as of December 31, 2016), 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.

The Company also holds exchange memberships and investments in equity securities of certain exchanges, as required to qualify as a clearing member, and strategic investments in corporate stock that do not qualify for equity method accounting. Such investments, $13 million as of June 30, 2017 ($33 million as of December 31, 2016), are recorded at cost or, if an other than temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment, and are also included in other assets in the condensed consolidated statements of financial condition. Dividends received from cost basis 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 an other than temporary decline in the value of an investment has occurred. The evaluation of an other than temporary 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. If an unrealized loss on any investment is considered to be other than temporary, the loss is recognized in the period the determination is made.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Property, Equipment, and Intangible Assets

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

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.

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

Revenue Recognition

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 are reported on a net basis in trading gains in the condensed consolidated statements of comprehensive income.

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.

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.

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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) contractual 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 and clearing expenses 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.

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 10) 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 judgments and estimates.

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

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Company is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows, or financial position.

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 2016-01	Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.	Effective for fiscal years beginning after December 15, 2017.
ASU 2016-02	Leases (Topic 842): Requires that, at lease inception, a lessee recognize a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments, in the statements of financial condition, among other requirements.	Effective for fiscal years beginning after December 15, 2018.
ASU 2016-08	Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).	Effective for annual reporting periods beginning after December 15, 2017.
ASU 2016-10	Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.	Effective for annual reporting periods beginning after December 15, 2017.
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 2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.	Effective for fiscal years beginning after December 15, 2017.
ASU 2016-16	Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.	Effective for annual reporting periods beginning after December 15, 2017.
ASU 2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business.	Effective for annual periods beginning after December 15, 2017.
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 2017-05	Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.	Effective for annual reporting periods beginning after December 15, 2017.
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 2017-09	Compensation—Stock Compensation (Topic 718): Providing clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award.	Effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017.
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.

Adoption of those ASUs that became effective during 2016 and 2017, prior to the issuance of the Company's condensed consolidated financial statements, did not have a material effect on these financial statements.

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The Company has reviewed the impact of FASB ASC Topic 606, “Revenue from Contracts with Customers” (“ASC Topic 606”), and expects to identify similar performance obligations under ASC Topic 606 as compared with deliverables and separate units of account previously identified, as a result the Company expects the timing of our revenue to remain the same as compared to FASB ASC Topic 605, “Revenue Recognition.” The Company expects to adopt ASC Topic 606 using the modified retrospective method.

3. Trading Activities and Related Risks

The Company’s trading activities include providing securities market making and brokerage 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. 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, which, during the current quarter, was 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. In light of the Company's decision to discontinue its options market making activities, the Company removed the Singapore dollar (SGD) and realigned the relative weights of the U.S. dollar (USD) versus the other currency components to better reflect its businesses going forward. The new composition went into effect as of the close of business on March 31, 2017.

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, and futures and on its borrowings. These risks are managed through investment policies and by entering into interest rate futures contracts.

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Credit Risk

The Company is exposed to risk of loss if an individual, 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 June 30, 2017, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

Off Balance Sheet Risks

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

4. Equity and Earnings per Share

In connection with IBG, Inc.'s initial public offering of Class A common stock ("IPO") in May 2007, it purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC ("Holdings"), became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Holdings owns all of IBG, Inc.'s Class B common stock, which has voting rights in proportion to its ownership interests in IBG LLC. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of June 30, 2017.

	IBG, Inc.	Holdings	Total
Ownership %	17.1%	82.9%	100.0%
Membership interests	70,254,969	341,444,304	411,699,273

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.

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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, which has voting power in IBG, Inc. in proportion to Holdings’ ownership of IBG LLC.

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 June 30, 2017 and December 31, 2016, 1,000,000,000 shares of Class A common stock were authorized, of which 70,384,414 and 68,119,412 shares have been issued; and 70,251,034 and 67,984,973 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of June 30, 2017 and December 31, 2016, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, the unamortized balance of these deferred tax assets was $259 million and $273 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 June 30, 2017 were $472 million, $401 million, and $71 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 $116 million through June 30, 2017 and an additional $15 million on July 10, 2017 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 2016, IBG, Inc. issued 12,643,495 shares of common stock (with a fair value of $362 million) directly to Holdings in exchange for an equivalent number of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (see Note 9), IBG, Inc.'s interest in IBG LLC has increased to approximately 17.1%, with Holdings owning the remaining 82.9% as of June 30, 2017. 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 88.8% as of June 30, 2017.

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On July 28, 2017, the Company filed a Prospectus Supplement on Form 424B5 (File Number 333-219552) with the SEC to issue 1,214,860 shares of common stock 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 17.1% to 17.4%.

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions, except share or per share amounts)			
Basic earnings per share				
Net income available for common stockholders	$ 23	$ 27	$ 47	$ 60
Weighted average shares of common stock outstanding				
Class A	69,087,753	64,967,264	68,539,426	64,476,321
Class B	100	100	100	100
	69,087,853	64,967,364	68,539,526	64,476,421
Basic earnings per share	$ 0.33	$ 0.41	$ 0.68	$ 0.93

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions, except share or per share amounts)			

Diluted earnings per share				
Net income available for common stockholders	$ 23	$ 27	$ 47	$ 60
Weighted average shares of common stock outstanding				
Class A				
Issued and outstanding	69,087,753	64,967,264	68,539,426	64,476,321
Potentially dilutive common shares				
Issuable pursuant to employee stock incentive plans	975,574	1,503,549	1,074,041	1,386,987
Class B	100	100	100	100
	70,063,427	66,470,913	69,613,567	65,863,408
Diluted earnings per share	$ 0.32	$ 0.40	$ 0.67	$ 0.91

Member Distributions and Stockholder Dividends

During the six months ended June 30, 2017, IBG LLC made distributions totaling $99 million, to its members, of which IBG, Inc.'s proportionate share was $17 million. In connection with IBG, Inc.'s annual payment to Holdings under the Tax Receivable Agreement, on July 10, 2017, IBG LLC made an additional distribution of $88 million to its members, of which IBG, Inc.'s proportionate share was $15 million. In March and June 2017, the Company paid quarterly cash dividends of $0.10 per share of common stock, totaling $7 million and $7 million, respectively.

On July 18, 2017, the Company declared a cash dividend of $0.10 per common share, payable on September 14, 2017 to stockholders of record as of September 1, 2017.

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5. Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions, except share or per share amounts)			
Comprehensive income available for common stockholders	$ 29	$ 24	$ 57	$ 63
Earnings per share on comprehensive income				
Basic	$ 0.42	$ 0.36	$ 0.83	$ 0.97
Diluted	$ 0.41	$ 0.36	$ 0.81	$ 0.95
Weighted average common shares outstanding				
Basic	69,087,853	64,967,364	68,539,526	64,476,421
Diluted	70,063,427	66,470,913	69,613,567	65,863,408

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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 June 30, 2017 and December 31, 2016. 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 June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	$ 3,503	$ —	$ —	$ 3,503
Financial instruments owned, at fair value				
Stocks	1,324	—	—	1,324
Options	973	—	—	973
Warrants and discount certificates	3	—	—	3
U.S. and foreign government securities	245	—	—	245
Corporate and municipal bonds	—	2	1	3
Currency forward contracts	—	25	—	25
Total financial instruments owned, at fair value	2,545	27	1	2,573
Total financial assets at fair value	$ 6,048	$ 27	$ 1	$ 6,076

Financial Liabilities At Fair Value as of June 30, 2017			
Level 1	Level 2	Level 3	Total

	(in millions)
Financial instruments sold, but not yet purchased, at fair value	