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Best retail FX platform: Interactive Brokers

It wasn't the best of starts for the foreign exchange industry in 2015. The decision by the Swiss National Bank (SNB) to discontinue its 1.20 EUR/CHF floor on January 15 revealed cracks up and down the industry, none more so than in the retail sector.

While it would be hard to argue that no broker in the retail FX space remained unscathed in the wake of the event, it is true that some weathered the storm better than others. US-based Interactive Brokers (IB) is one.

"There's very little that can be said about that day, but I can say it was pretty much business as usual on our platform. The markets were jumping around like crazy. We had two or three handle moves very quickly, but we had continuous liquidity," says Jon Chait, director of the broker.

"Our customers didn't experience an environment that was less chaotic than the overall market environment, but they didn't experience a service outage, technology failure or anything else," he adds.

Chait says the SNB event highlighted

two major issues that need to be resolved: undercapitalisation and conflict of interest.

"A lot of [retail] brokers are poorly capitalised and, as long as everything goes well, we don't see the hidden risk. But every now and then an event like [the one] in January comes along, and we realise how little capitalised these firms are and how much risk their customers are taking," he says.

**"It was pretty much
business as usual on our
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Jon Chait, Interactive Brokers

With a market capitalisation of \$18 billion dollars and a book value of \$5.6 billion, the US broker clearly isn't suffering from the curse of the small balance sheet. Additionally, the firm's unique structure incentivises safe trading practices and prioritises the interests of its customers.

"An important aspect is that the

managers and principals of the company are invested in it. Having 87% of the company owned by the people who work for it, or are operationally close to it, means we have a strong vested interest in not going out of business, because we would lose all our money before the customers lose one penny," says Chait.

To further guard against any conflicts of interest, IB operates an agency model that draws on liquidity sourced from 14 interbank dealers. This liquidity is fed directly to its customers, who can also trade with one another via a central order book.

"Most service providers in the FX retail space deal as counterparty to their customers' trades," he says. "That's the biggest issue. If that wasn't a problem a lot of other things would repair themselves.

"Our goal is always to find the best counterparty to our customers' trades. It doesn't matter whether it's a bank, another customer or a professional market-maker feeding prices into our system," Chait adds. ^{ix}

Mikael Latreille