

Interactive Brokers' Asia Head Sees Strong Growth Ahead and Closer Alignment with the Wealth Management Community

To many involved in the global financial markets, the Interactive Brokers Group Inc, which trades as IBKR on Nasdaq, needs little introduction. It is well-known as one of the world's most established platforms, providing electronic brokerage, trading services and custody for securities, commodities and foreign exchange around the clock. But while Interactive Brokers is perhaps best known for its retail market penetration, it is also increasingly active in the institutional markets worldwide. In Asia, the firm spends a lot of time and effort connecting to the wealth management community, continually building more customers from amongst the private banks, the independent wealth managers, the expanding ranks of family offices and from amongst the numerous IFAs in the region. Hubbis met again recently with David Friedland, managing director of Interactive Brokers in Asia, who surveyed the key developments in the region's wealth management markets that are influencing their business strategy, as they continue to build their institutional business region-wide. And he explained what he and his team have been doing to further build market share across the length and breadth of the vast Asia Pacific region, where the firm today operates out of Singapore, Hong Kong, Mainland China, Japan and Australia.

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DAVID FRIEDLAND
Interactive Brokers

Interactive Brokers provides clients from over 200 countries and territories worldwide with access to 150 markets globally. The company's customer base

clearing, including portfolio analysis for advisors, and a host of sophisticated bells and whistles for ease of access, trading, monitoring and reporting.

advisors, family offices, IAMs and large institutional clients are all drawn by the combination of compelling costs and outstanding efficiency that the firm offers.

Armed with his nearly 30 years leading the business expansion in the Asia Pacific markets, David has a remarkable grasp of the evolution of the wealth management market and of the Interactive model in the region.

"Our institutional offering continues to evolve, and introducing brokers, wealth managers and hedge funds worldwide benefit from our transparent and low commissions, access to global markets from a single unified platform and powerful trading technology,"

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includes millions of individual investors, as well as hedge funds, proprietary trading groups, wealth management intermediaries and financial advisors, and introducing brokers. While retail clients are looking first and foremost at low commissions, the more sophisticated hedge funds and other specialist investors also greatly value the firm's expertise in delivering smart routing, best execution and seamless, real-time reporting.

The platform offers a front-to-back service providing straight-through processing, from execution to

A long history in Asia

The firm's history dates right back to 1995 when it was David himself who arrived in Hong Kong to open their first office in the region. The mission was initially to build an electronic market making business under the groups former name, Timber Hill. That mission coincided with the formation of Interactive Brokers which catered to both the retail and institutional space. With the retail presence well established, in more recent years, they have been working assiduously to build more awareness of their institutional presence. He says the financial

he reports. "In Asia, we are doing everything we can to get the word out and drive home the message that we offer outstanding quality and service to institutions of all types and all sizes."

Strong commitment to growth

The last time Hubbis interviewed David, back in 2020 in the midst of the pandemic, he had explained that in the past, the platform had grown robustly in Asia with only soft marketing, with a lot of word-of-mouth recommendations, but that with a new fully licensed Singapore

operation on stream at the time, they were ratcheting up their communication and marketing efforts to more rapidly build critical mass in Singapore and across the Southeast Asia region.

He says that Singapore has proven a considerable success and was a natural step to complement the company's other Asian operations and growing footprint. He says that given Singapore's rapid growth as a leading regional and indeed global financial and wealth management centre, there has been a continuing rise in demand for Singapore as a booking centre to cater to worldwide clients, especially from the US, to help ensure regulatory compliance with the raft of new and also more vigorously enforced rules across the globe.

He explains: "As we have grown across Asia, there has indeed been a considerable need for additional customer service infrastructure and reach, and Singapore is proving a great gateway for expertise, infrastructure and services to access the region and to service global clients in the region."

Your one-stop trading shop

David says the Interactive Brokers offering is somewhat unique in that the platform has what he considers to be a very deep, diverse set of features catering to extremely active traders and sophisticated institutions and explains that all the tools that are embedded in the system come with it for free.

He runs through a shopping list of criteria he and colleagues consider vital for customers. "They firstly want a platform that is easy to

Key Priorities

David reports that his first objective is to expand their market penetration in developing markets such as Taiwan, Malaysia, Thailand and others where there is rising demand from investors but also increasing demand from fund houses and asset managers for improved distribution and access.

His second core mission is to spread the word on the platform further. "Although we have been in the markets in Asia for many years, we need to keep building awareness of our capabilities and connecting to more and more in the broader wealth and asset management landscape."

access and appears transparent and 'honest' for want of a better word," he says. "With us, what you see is what you get, and over many years, we have proven that we are stable, reliable and that we operate with integrity, steering well clear of the hidden fees that some competitors incorporate in their models whilst at the same time apparently offering low or no commissions."

A compelling proposition

He cites as an example the exceptionally competitive margin interest rates they charge for borrowing and the attractive rates they pay on cash held with the platform. "Small increments add up to a lot over the years, and we consider that to be one of the appeals for clients to stay loyal to us," he comments. "Our foreign exchange conversion rates are similarly highly competitive, and again that can add up to a lot over time. We offer institutional spreads at levels down as low as a tenth of a pip, in other words really competitive pricing."

Account opening, he reports, is both simple and rapid. Even in highly

complex cases, he says they usually open accounts within a week or two, and most accounts will open overnight, especially retail accounts. They also have a suite of tools to make people's lives easier, they are fully automated, they provide open API compatibility with literally hundreds of third-party providers offering services, and they offer a large suite of research and research tools.

"I can say it is an institutional-level platform on people's desks for free," David states. "Moreover, we do not charge custody fees, and as I said, we pay competitive rates for cash held with us."

Open architecture and transparency

He explains that Interactive steers well clear of what he sees as a common practice amongst the private banks of corralling clients towards higher fee investments, including structured products.

He explains that they have caps on what their advisors can charge, but on the other hand,

for smart advisors who are well organised and who devise their own strategies and work closely and well with their clients, they see that they can come onto the platform and make money without all the pressure from the banks where they used to work.

“Yes, we charge far lower fees,” he says, “but at the same time, the advisors keep a larger slice of those fees. All in all, they often find they can do better with us than with the banks, and without the attendant complexities of working in that type of organisation.”

A magnet for hedge funds

David explains that Interactive Brokers has done especially well with hedge funds. In fact, Prequin ranked Interactive Brokers #1 prime broker for hedge funds with AUM up to \$50 million and the fastest growing prime broker for three consecutive years among all hedge funds. “We do not have minimums for these funds, and they can come on board and trade immediately, accessing global execution and quality processes without additional cost, creating a virtuous circle of lower costs, better

performance and greater share of wallet,” he reports.

Additionally, with such a wide array of equity and bond products – both public and private – on the platform – advisors see they have a lot to work with to help their own clients. “We attract a lot of self-motivated, entrepreneurial, smart, sharp advisors,” David states. “And with a younger, more digital-native, more discerning client base, this shift towards lower costs but better architecture and service are definitely major trends taking place.”

Moreover, he adds that as AI-enabled analysis by these types of smart advisors becomes more prevalent and more readily available, more investors will seek out these tech-savvy advisors to help them with analysis around individual investments and portfolio formation.

“These types of advisors are not offering advice, as such, but analysis to help the smart self-serve investors curate their own portfolios,” David elucidates. “We see more advisors acting independently and doing more

of the research and analysis themselves, and thereby building their client base on the back of their own expertise.”

Bullish on Asia, positive on Hong Kong

While he reiterates how bullish he is about Asia in general, his final word is on Hong Kong, the platform’s original hub and base in Asia, dating back to 1995. He believes that the historical capabilities and track record combined with the massive inflows and outflows from China, and the connectivity to the Greater Bay area will all propel Hong Kong towards a viable future.

“Hong Kong has a long history of reinventing itself, it has a solid rule of law, a deep talent base, free movement of capital, more firms of all sorts are coming here in anticipation of the Greater Bay expansion, and it is a good place to live and work,” he says. “In short, I think Hong Kong will be fine, but as we have already seen, people will hedge their bets, with money here and money outside Hong Kong.” ■

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Getting Personal with David Friedland

David grew up in New York, where he later studied at Vassar College, majoring in Econometrics, before furthering his studies and obtaining his MBA from the Anderson Graduate School of Management at UCLA in California.

He recalls his early days with Interactive with fond memories. “I am a real rarity; I have been with one firm my whole working life. At the start, I was really thrown in the deep end in programming, back-office, and they just said, ‘well, you studied econometrics, so get on with it’. I felt like I had no clue what to do, but I just had to figure it all out, and I did. That was my baptism by fire in a firm that is all about challenges, all about solving problems, all about being the best you can be.”

He says that even today, approaching four decades after first arriving at Interactive, he has not looked back ever since those early days. “The adventure of building the business across Asia Pacific has been truly rewarding and incredibly interesting,” he reports. “I remain as enthusiastic about the business and platform today as when I first arrived in Asia in 1995.”

That was when Friedland relocated to Hong Kong to oversee and commence the group’s derivative market-making and brokerage operations in Asia and Australia. Since then, IBKR has enjoyed excellent growth across the region and Friedland has become a household name in the industry, taking up, inter alia, various consultative roles for the Hong Kong exchanges to help drive regulation and market infrastructure forward. He is currently a member of the SGX DT Advisory Committee, HKEX Cash Market Consultation Panel, and HKEX Clearing Risk Working Group.

Still contentedly married, David and his wife have a 23-year-old daughter who graduated from Dartmouth College in the US and now works at Applied Physics Lab, John Hopkins, and a 21-year-old son who is due to graduate from Santa Clara this year.

David remains passionate about life, food, wine, and sports, particularly yoga and tennis and gym. He also took advantage of the Covid travel lockdown to wear through a number of hiking shoes exploring the many trails and vast country parks in Hong Kong.

Travel is always on his and his wife’s agenda, and he has fond memories of a recent trip to a friend’s wedding in Marrakech, Morocco, followed by travels across eight Portuguese towns and cities in 12 days.

Interactive Brokers: A Snapshot

Nasdaq-listed Interactive Brokers Group, Inc. (IBKR) began life back in 1977 and is today a world leader in automated trade execution and custody of securities, commodities and foreign exchange around the clock on over 150 markets in numerous countries and currencies, from a single unified platform to clients worldwide.

The firm services individual investors, hedge funds, proprietary trading groups, financial advisors and introducing brokers.

“Our four decades of focus on technology and automation have enabled us to equip our clients with a uniquely sophisticated platform to manage their investment portfolios at the lowest cost possible,” Friedland reports. “We strive to provide our clients with advantageous execution prices and trading, risk and portfolio management tools, research facilities and investment products, all at low or no cost, positioning them to achieve superior returns on investments.”

Headquartered in Greenwich, Connecticut, Interactive Brokers has 2.33 million client accounts as of August 1, 2023, and is among the largest electronic brokers based on daily average revenue trades (DARTS), executing 1,991,000 trades per day as of August 1, 2023.

In Asia, IB began operations in 1995 through a Hong Kong subsidiary, Timber Hill Securities. The firm then launched in Japan in 2002, followed by South Korea and Singapore in 2004, and Taiwan in 2007. The India business started in 2008. In 2014, it became an exchange participant in the ground-breaking Hong Kong-Shanghai Stock Connect. And IBKR launched its full-scale Singapore operation in 2020, when it obtained the full Singapore CMS license and regulatory approvals.

David has been with IBKR since 1985 and has enjoyed the firm’s remarkable rise from its beginnings as a proprietary trading house into perhaps the biggest electronic options market-maker in the world. And it was in 1995 that he came to Asia; at that time, Hong Kong was about to form an electronic stock options market.

“The firm seized the opportunity to open the Asian operations, and we have expanded across the region, with offices also in Japan and Australia, and with access into Korea, as well as wholly-foreign owned operation in Shanghai, which is achieving exceptional growth, and of course the new Singapore operation we have recently opened. And there is much more to achieve in a region of such enormous potential.”

