

Trading gains

Harnessing technology to provide liquidity on better terms to investors remains the driving force for Interactive Brokers, explains David Friedland.

Challenging the status quo is something David Friedland believes in passionately.

“At Interactive Brokers (IB), we always want to question the status quo,” says the managing director for Asia Pacific. “We were the first firm to introduce touch screens and hand-held computers on trading floors.”

US-headquartered IB conducts broker/dealer and proprietary trading businesses in more than 100 markets worldwide. It provides direct trade execution and clearing services to institutional and professional traders for a variety of electronically-traded products including stocks, options, futures, forex, bonds, CFD and funds worldwide.

The group, along with its affiliates, execute nearly 1 million trades every day.

In Asia, IB started operations in 1995 through its Hong Kong subsidiary, Timber Hill Securities. Next it

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.

“If we didn’t question the status quo, we wouldn’t be where we are today,” adds Friedland.

OPTIMISTIC ABOUT ASIA

IB remains highly upbeat on its prospects in Asia. And one of its biggest priorities for 2017 includes further bulking up the product line-up available in the region.

For instance, on the stocks side, the firm already provides access to Hong Kong, Singaporean, Japanese and Australian equities. “By the end of this year, we should have added Korea and Taiwan. After that, we will bring in Thailand and a few others,” says Friedland.



DAVID FRIEDLAND
Interactive Brokers

Another goal is to introduce the firm’s stock-yield enhancement programme for Hong Kong equities. This provides customers with the opportunity to earn

additional income on securities that meet certain criteria. The income a customer receives in exchange for shares lent depends upon loan rates established in the over-the-counter securities lending market.

“IB will lend stocks on [an investor’s] behalf and will split the income on the stock lending,” explains Friedland. “Not only will it improve our stock loan book, it also lowers the cost for clients.”

The third goal is to keep growing the business. “We don’t have targets because if you hit a target, what do you do? Do you stop working? No. We are never satisfied, we are constantly seeking to evolve, change and grow.”

Given the growth in wealth across Asia, apart from the active individual or trader, IB has also been amassing a steady clientele of financial advisers on its platform.

“We have seen significant growth in the number of advisers and we are, in turn, investing a good amount of time and effort in creating tools in this space,” says Friedland. “Our trader platform already has several sophisticated tools. For instance, we have Risk Navigator, which allows customers to check the risk levels of their portfolio on an almost real-time basis.”

Friedland says IB has put in a lot of effort to developing tools for account management that help in deciding how to allocate funds among clientele, charge clients and generate reports. The firm has also brought in additional tools from third-party news and analytics vendors.

“We have open API so we have many third-party vendors who are interested

in targeting certain advisers and they come to us and it adds to the suite of what is available,” he adds.

BOOSTING CAPABILITY

In 2015, the group acquired online investing marketplace Covestor, which allows for the comparison and selection of money managers which offer active and passive investment options.

Its Portfolio Sync technology also automatically replicates trades of reputed portfolio managers. Using this technology, a client’s portfolio is matched to the portfolio of a money manager – trade for trade, manoeuvre for manoeuvre.

Trades for portfolio managers and clients are executed simultaneously.

“The portfolio manager places an order. We calculate the combined number of shares the portfolio manager and clients require, and place a super-order that is sent to the market as one order,” explains Friedland.

In contrast, on other trading platforms, the manager executes a trade first and is followed by the copycat trades.

However, the secondary trades will show a lower performance because the market has already moved, he says.

“Wealth managers/advisers can charge their fees based on the commission mark-up or a more typical percentage of assets/return. It’s all coded in to the system,” he adds.

GROWING THE CLIENT BASE

Meanwhile, IB has also been winning large deals with institutional clients. Earlier in 2017, for example, it was chosen by Zions Direct to become its clearing firm. Under the deal, IB will

take on trade execution, clearing and custody functions for Zions Direct.

Friedland says the group is open to similar deals in Asia. “We are talking to a number of firms, including a few banks. In fact, some institutions already use our platform for routing trades and generating reports.”

In the electronic brokerage business, he acknowledges that transparency is crucial to winning trust among clients.

He explains that IB’s corporate structure goes a long way in instilling that trust. It is a public listed company in the US, with about 15% in the hands of public investors. The balance is held by top management.

“That means we have significant skin in the game and, as a result, we don’t take excessive risks,” he says. “We don’t have anything off-balance sheet and we follow strict regulatory requirements while holding custody of client money.”

In Hong Kong, for instance, custody is only with designated banks.

IB also goes a step further: it places credit limits on every bank and financial institution it uses to hold money, and once it hits that limit, it diverts the funds to other banks, thereby reducing risk.

For clients looking to trade online, Friedland has a few words of advice: “Always go with a firm that has a track record of being open and transparent,” he says.

“Your money needs to stay safe, so choose a firm that has a clean balance sheet. The trading platform should also have accurate reporting tools and you should be able to get your money in and out easily.” ■