InteractiveBrokers

# Interactive Brokers Order Routing and Payment for Order Flow Disclosure

1. **IBKR's Order Routing System:** IBKR provides brokerage clients two different account offerings: (1) IBKR-PRO; and (2) IBKR-LITE. Subject to certain restrictions, clients may choose between either offering depending on which they decide best satisfies their trading objectives and goals.[1] These offerings are designed to give IBKR clients the flexibility to prioritize the opportunity for zero-commission NMS stock trades and fixed-rate commission US equity option trades versus the amount and likelihood of price improvement they receive on trades.

   IBKR-PRO orders are submitted to IBKR's high-speed Best Execution Order Routing System (SmartRouting[SM]), which is designed to optimize execution price, speed and total cost of execution for stocks and options. IBKR constantly changes and enhances the SmartRouting system to adapt to changes in markets, new exchanges, new trading rules, etc. IBKR's SmartRouting system continually scans competing market centers and automatically seeks to route orders to the best market, taking into account factors such as quote size, quote price, exchange or ATS transaction fees or rebates and the potential availability of price improvement (execution at a better price than the National Best Bid or Offer ("NBBO"), "Price Improvement"). The IBKR SmartRouting system continually reevaluates market conditions and prices for pending IBKR client orders and dynamically re-routes orders as necessary. With IBKR-PRO, unless you direct your order to a specific market center or "algo" provider, IBKR's SmartRouting system retains control over the routing of your order for execution and does not deliver your order for another broker to route.

   For some products, IBKR-PRO clients may directly route their orders to a particular market of their choice, although IBKR recommends that our clients use the IBKR SmartRouting system.

   IBKR also operates an Alternative Trading System (the IBKR ATS) in accordance with SEC Regulation ATS, on which it executes IBKR client orders against each other or against one or more professional liquidity providers who send orders into the IBKR ATS. Order executions on the IBKR ATS are faster, eliminate exchange fees, and may offer Price Improvement. Statistical information regarding the quality of executions for orders effected through the IBKR ATS (e.g., average execution speed, percentage of orders receiving Price Improvement, etc.) is available on the IBKR website at: https://ibkr.com/regulatoryreports.

   IBKR-LITE clients are charged zero commission for NMS stock orders (except for certain order types and orders to execute at the open or close[2]) and a fixed rate commission per contract for US equity options[3]. IBKR-LITE orders for NMS stocks are generally routed to select over-the-counter market-makers ("Market Makers") for handling. IBKR's agreements with the Market Makers provide Interactive Brokers payment for order flow from each Market Maker for trades executed with that Market Maker. IBKR may also route IBKR-LITE orders to another broker, ATS, or exchange (each an "Away Route"), in which case IBKR may collect payment for order flow for trades executed at or through that Away Route; IBKR may also route IBKR-LITE orders in US equity options to Market Makers for handling, and may collect payment for order flow for options trades executed through such Market Makers and/or trades executed at an Away Route. By using the IBKR-LITE service,

clients authorize IBKR to receive and retain such payments from Market Makers and Away Routes, in whole or in part, for IBKR's own account and not that of the client, in consideration for services provided by IBKR to the client. For more details, please see IBKR's quarterly order routing report at https://www.ibkr.com/regulatoryreports.

In the event that IBKR is experiencing technical issues with its connections to all of its Market Makers at the time that an order in an NMS stock is to be routed for an IBKR-LITE client, IBKR may route the order using its SmartRouting functionality (as if the client had chosen the IBKR-PRO offering), but will still charge no commission on any resulting trades.

IBKR may add other products to its IBKR-LITE-specific commission schedule offering from time to time.

If an IBKR-LITE-specific commission schedule is not in place for a product, orders in such products are routed for IBKR-LITE clients in the same way as they are for IBKRPRO clients. For these products, the same commission structure will apply to both IBKR-LITE and IBKR-PRO. Where available, a "Fixed" commission model will apply to IBKR-LITE clients for such products. For more information, see below and at https://www.ibkr.com/en/index.php?f=1590.

2. **Orders Sent Near the Opening of Trading:** Please note that markets can be especially volatile near the opening of a trading session, with prices and available volume often changing rapidly and with data feeds from various markets potentially being slow or temporarily unavailable. IBKR cannot guarantee that orders sent at or near the opening of trading necessarily will receive the best posted price. You may want to consider the use of limit orders at the open, although market orders should be used if certainty of getting a fill is of greater concern to you than fill price.
3. **Order Conversion and Designation:** IBKR may convert certain order types or apply conditions to certain IBKR client orders in order to facilitate an execution. For example, IBKR may simulate certain order types using order designations. Simulated order types may be used in cases where an exchange does not offer an order type or in cases where IBKR does not offer access to the "native" form of certain order types offered by an exchange. In addition, orders may be sent Immediate or Cancel, Fill-Or-Kill, All-Or-None, etc., in order to facilitate an immediate, automatic execution, consistent with the objectives of the client order. To protect client orders from significant and rapidly changing prices, IBKR may simulate market orders on exchanges by establishing a price ceiling for a buy order or a price floor for a sell order at a percentage beyond the inside bid/ask. While this cap or floor is set at a level intended to balance the objectives of execution certainty and minimized price risk, there exists a possibility that an execution will be delayed or may not take place. In addition, IBKR is required by exchanges and regulators to maintain "filters" in its systems that prevent executions at prices that might be deemed to be disruptive to an orderly market (or exchanges may have such filters in their systems). These filters may cause an otherwise marketable order not to be executed or to be delayed in execution, even if the client might want the order to be executed immediately at a certain price. In accordance with our regulatory obligations as a broker, IBKR may also reject orders exceeding certain size thresholds, based upon factors including the normal volume in the product, the type of order, the marketability of the order, and other factors which may affect the likelihood that the order could result in market disruption.
4. **Important Characteristics and Risks of Using Stop Orders:** A Stop Order - i.e., a Stop (Market) Order - is an instruction to buy or sell at the market price once your trigger ("stop") price is reached. Please note that a Stop Order is not guaranteed a specific execution price and may execute significantly away from its stop price, especially in volatile and/or illiquid markets. Stop Orders may be triggered by a sharp move in price that might be temporary. If your Stop Order is triggered under these circumstances, you may buy or sell at an undesirable price. Sell Stop Orders may make price declines worse during times of extreme volatility. If triggered during a sharp price decline, a Sell Stop Order also is more likely to result in an execution well below the stop price. Placing a limit price on a Stop Order may help manage some of these risks. A Stop Order with a limit price - a Stop (Limit) Order - becomes a limit order when the instrument reaches the stop price. By using a Stop (Limit)

Order instead of a regular Stop Order, you will receive more certainty regarding the execution price, but there is the possibility that your order will not be executed at all if your limit price is not available in the market when the order is triggered.

5. **Important Characteristics and Risks of Using Market Orders:** Please note that a Market Order is an instruction to execute your order at any price available in the market. A Market Order is not guaranteed a specific execution price and may execute at an undesirable price. If you would like greater control over the execution prices you receive, please submit your order using a Limit Order, which is an instruction to execute your order at or better than the specified limit price.
6. **Potential Effects of High Volumes and Market Volatility:** High volumes of trading and price volatility may lead to wider market volatility and extreme market conditions. It is important that IBKR clients understand the potential risks this presents, including:

    1. **Delay and Price Issues:** High volumes of trading, either around the market open, market close or other times of day, may cause delays in execution (or associated reporting) and/or executions at prices significantly different than the market price quoted or displayed at the time of order entry.
    2. **Changes to Order Handling and Restrictions on Order Acceptance:** Volatile or extreme market conditions may necessitate changes to IBKR's order handling procedures, margin requirements, and/or restrictions on the types of orders IBKR will accept. IBKR is not required to receive or accept orders from clients, particularly in circumstances where IBKR believes that the associated compliance, legal, financial, credit or other risks are not acceptable. IBKR may determine that it is necessary to change order handling procedures or margin requirements, or restrict or prohibit trading, to limit IBKR's and/or clients' exposure to extraordinary market, financial or other risks. IBKR may make these changes in its sole discretion, without notice. For example, IBKR may determine that it is necessary to restrict certain transactions to closing-only status (meaning that clients may close existing positions but may not open new positions), make certain products non-shortable (meaning that clients may not open short positions in a particular product), or increase margin requirements.
7. **Payment for Order Flow, Dark Pools, Liquidity Provider and Affiliate Relationships:**

    1. **IBKR-LITE Orders**

        a. **IBKR-LITE Orders in NMS Stocks and US Equity Options:** Please see paragraph 1 for a discussion of IBKR's policies regarding payment for order flow in connection with IBKR-LITE orders in NMS stocks and US equity options.
        b. Specific Provisions Regarding IBKR-LITE Orders in US Equity Options:
            1. IBKR may route orders in US equity options to Market Makers. For US equity options orders not routed to Market makers, IBKR employs its SmartRouting system to try to achieve the best execution for client option orders. The SmartRouting system is designed to achieve an execution price at or better than the NBBO by utilizing relationships with liquidity providers, who may provide Price Improvement through the various auction and Price Improvement mechanisms offered under U.S. option exchange rules. These relationships benefit IBKR clients, who may receive Price Improvement for their options orders. IBKR may receive payment in the form of commissions or other payments from the liquidity providers for these executions.
            2. Several options exchanges impose "maker-taker" fees and rebates, in which exchange members are charged for orders that take liquidity (i.e., marketable orders that trade against a posted quote or limit order) and receive a rebate for orders that add liquidity to the exchange (i.e., non- marketable limit orders that are posted and then trade against incoming marketable orders), or vice versa. By electing IBKR-LITE, you are agreeing to allow IBKR to retain any rebates it receives from an exchange in connection with your order being routed at that

exchange.

3. Under certain circumstances, IBKR may route a marketable option order to an exchange that is not currently posting the NBBO but which may be willing to execute the order at the NBBO. Generally, IBKR will do this in order to avoid or reduce the fee for executing the order, compared to routing to a different exchange. In addition, in the limited circumstances where IBKR routes orders in this manner, IBKR generally guarantees a fill at the NBBO at the time the order was routed.
4. Option exchange payment for order flow programs may result in payments to specialists or primary market makers, some portion of which may be paid to IBKR.

c. **Other Products:** For products not subject to an IBKR-LITE specific commission schedule, entitled to zero-commission trading under IBKR-LITE, the same commission structure will apply to both IBKR-LITE and IBKR-PRO. Where available, a "FIXED" commission model will apply to IBKR-LITE clients for such products. For more information, see below and at https://www.ibkr.com/en/index.php?f=1590.

2. **IBKR-PRO Orders**

a. **Dark Pool and ATS Executions for Clients' Marketable Stock and ETF Orders:** IBKR maintains connections to "dark pool" ATSs ("Routeaway Dark Pools") that may execute IBKR-PRO client marketable orders in NMS stocks. IBKR clients benefit from IBKR's access to dark pools. Dark pools provide a source of substantial additional liquidity. Dark pools generally charge no execution fees or lower execution fees than exchanges. Dark pools also provide fast executions and the possibility of executions at prices more favorable than the prevailing NBBO.

IBKR receives rebate payments for routing and executing marketable client orders for Regulation NMS stocks at some Routeaway Dark Pools. As of May 29, 2018, IBKR generally passes the amount (or approximate amount) of any such rebate to
(i) Tiered-commission IBKR-PRO clients as a venue rebate; and to
(ii) Fixed-commission IBKR-PRO clients in the form of a reduction to the standard U.S. stock commission.

b. **Liquidity Provider Relationships in the IBKR ATS and Executions of Client Orders Against Those Liquidity Providers in the IBKR ATS:** IBKR has entered arrangements with certain institutions under which such institutions may send liquidity-adding orders in NMS stocks to the IBKR ATS. These orders are held within the IBKR ATS and are not displayed in the national market. If an IBKR-PRO client marketable order could be immediately executed against such an order held in the IBKR ATS (at the NBBO or at a better price than the NBBO), the orders may be crossed and the execution reported to the National Market System. This arrangement provides extra potential liquidity (size) for IBKR-PRO client orders and may provide faster executions (since the orders do not have to be routed out to an exchange), as well as providing the possibility of Price Improvement (since the orders may be executed at a better price than available on an exchange).

IBKR may receive payment in the form of commissions or commission equivalents from the liquidity providers for these executions in the IBKR ATS. In the event IBKR receives any such payment, IBKR generally passes the amount (or approximate amount) of the benefit to the client as follows, to (i) Tiered-commission IBKR-PRO clients as a venue rebate; and to (ii) Fixed-commission IBKR-PRO clients in the form of a reduction to the standard U.S. stock commission.

c. **Client-to-Client Order Crosses in the IBKR ATS:** For client orders in Regulation NMS stocks that result in client-to-client crosses on the IBKR ATS, IBKR charges and/or provides the following commissions, fees, and/or rebates:

1. **Non-Marketable Orders Directed to and Executed in the IBKR ATS:** IBKR does not pay rebates or commission breaks to clients for non-marketable orders directed to and executed in the IBKR ATS ("Directed IBKR ATS Order(s)").

2. **Orders Smart-Routed to and Executed in the IBKR ATS Against Directed IBKR ATS Orders:** If IBKR smart-routes an order to the IBKR ATS and that order is executed against a Directed IBKR ATS Order, IBKR will provide:

    - A fixed per-share rebate to the IBKR-PRO Tiered-commission client who submitted the smart-routed order; or

    - A fixed per-share commission reduction to the IBKR-PRO Fixed-commission client who submitted the smart-routed order.

3. **Non-Marketable Orders Smart-Routed to the IBKR ATS Which Were Also Eligible for Execution at an Exchange:** IBKR may smart-route a non-marketable order to an exchange and later re-route that order to the IBKR ATS (the "Eligible Resting Non-Marketable Order") where it executes against another client order. In this instance:
    - An IBKR-PRO Tiered-commission client that submitted the Eligible Resting Non-Marketable Order will receive the add-liquidity rebate (or pay the add-liquidity fee, if applicable) that the client would have received (or paid) if their resting order had executed at the exchange on which it had been resting.
    - An IBKR-PRO Fixed-commission client that submitted the Eligible Resting Non-Marketable Order will pay the typical fixed commission.

4. **Orders Smart-Routed to the IBKR ATS Which Are Executed Against Eligible Resting Non-Marketable Order(s):** IBKR may smart-route a client order to the IBKR ATS so that it executes against an Eligible Resting Non-Marketable Order. In this instance:

    - An IBKR-PRO Tiered-commission client that submitted the order will be charged the venue take-fee (or receive the venue take-rebate, if applicable) that the client would have paid at the exchange to which the client's order would otherwise have been routed.

    - An IBKR-PRO Fixed-commission client that submitted the order will pay the standard fixed commission.

d. **IBKR-PRO Tiered Commission Structure for Orders Routed to Exchanges:** Under IBKR's Tiered commission model, IBKR passes to Tiered commission clients some or all of certain rebate payments IBKR receives for executing stock orders at exchanges, although the Tiered commission model is not intended to be a direct pass-through of exchange and third-party fees and rebates. For example, IBKR may receive enhanced rebate payments for exceeding volume thresholds on particular markets, but typically will not directly pass these enhancements to clients. Likewise, IBKR does not pass to clients all of the rebates IBKR may receive for orders in pink sheet or OTCBB stocks.

e. **Options:** IBKR does not deliver its IBKR-PRO option orders to another broker to handle and route. Rather, IBKR employs its SmartRouting system to try to achieve the best execution for client option orders. The SmartRouting system is designed to achieve an execution price at or better than the NBBO by utilizing relationships with liquidity providers, who may provide Price Improvement through the various auction and Price Improvement mechanisms offered under U.S. option exchange rules. These relationships benefit IBKR clients, who may receive Price Improvement for their options orders. IBKR may receive payment in the form of commissions or other payments from the liquidity providers for these executions.

   Several options exchanges impose "maker-taker" fees and rebates, in which exchange members are charged for orders that take liquidity (i.e., marketable orders that trade against a posted quote or limit order) and receive a rebate for orders that add liquidity to the exchange (i.e., non- marketable limit orders that are posted and then trade against incoming marketable orders), or vice versa. The charges imposed or rebates offered by these exchanges affect the total cost of execution, and IBKR's SmartRouting System takes this into account in determining where to route option orders - trying to minimize the costs that clients incur. If multiple exchanges are quoting at the NBBO for an option order and IBKR has discretion as to where to send the order or a portion of it, IBKR generally will "break the tie" by sending the order to an exchange where it will receive the most payment for the order.

   Under certain circumstances, IBKR may route a marketable option order to an exchange that is not currently posting the NBBO but which may be willing to execute the order at the NBBO. Generally, IBKR will do this in order to avoid or reduce the fee for executing the order, compared to routing to a different exchange. IBKR generally will share the economic benefit of routing orders in this manner with clients in the form of reduced execution fees, although IBKR does not guarantee that it will share such benefit. In addition, in the limited circumstances where IBKR routes orders in this manner, IBKR generally guarantees a fill at the NBBO at the time the order was routed.

   Under IBKR's Tiered commission model, IBKR passes to Tiered-commission clients some or all of certain rebate payments IBKR receives for executing option orders, although the Tiered-commission model is not intended to be a direct pass-through of exchange and third-party fees and rebates.[2] For example, IBKR may receive enhanced rebate payments for exceeding volume thresholds on particular markets, but typically will not directly pass these enhancements to clients. Likewise, IBKR does not pass to clients all of the rebates IBKR may receive for liquidity taking orders, complex orders or orders executed in price improvement auctions. Traditional exchange payment for order flow programs result in payments to specialists or primary market makers, some portion of which may be paid on to IBKR. IBKR does not pass these payments directly to clients.

8. **Affiliate Investments in Exchanges:** An affiliate or affiliates of Interactive Brokers LLC own(s) minority interests in OneChicago (security futures exchange) and a substantial, minority investment in the Boston Options Exchange Group LLC, which operates the BOX Options Exchange.
9. **Quarterly Order Routing Reports and Other Order Routing Information Available upon Request:** U.S. Securities and Exchange Commission rules require all brokerage firms to make publicly available quarterly reports describing their order routing practices. IBKR's quarterly order routing reports are available on the IBKR website at ibkr.com/regulatoryreports, or you can contact IBKR Client Services.

   In addition to the basic quarterly reports, under Rule 606 of SEC Regulation NMS, a broker-dealer is

required upon a client request to provide information regarding the identity of the market center to which the client's orders were routed in the six months prior to the request; whether the order was a directed or non-directed order, and the time of the transaction, if any, that resulted from such order. Please contact the IBKR Client Services Desk in writing through the information on the IBKR website at ibkr.com/help if you wish to receive the foregoing routing information for any order(s) within the past six months. Please type "Request for Order Routing Information" in the subject line of your request and please include your name, user id and account number as well as the date of the order, the security, the quantity, and any other information necessary to identify the order (e.g., the time of day if there were several similar orders that day.)

As long as consistent with applicable securities laws and regulations, we may share anonymized account information or anonymized delayed order information with third parties (and/or share such information among our affiliates) for the purpose of analysis, research, market data compilation, product creation, establishing order routing and execution relationships, or for any other lawful purpose.

NOTES:

1. For more information about the IBKR-PRO and IBKR-LITE offerings, please visit the IBKR website at ibkr.com.
2. IBKR-LITE NMS stock orders that execute at the open or at the close ("OnOpen" or "OnClose" orders, respectively) are commission-free in any given month so long as the account's aggregate OnOpen and OnClose executed order volume in that month does not exceed a certain percentage of the account's aggregate US stock trading volume in that same month. For details, see the section on Free Commissions on IBKR's website.
3. IBKR-LITE accounts are charged a fixed rate commission on the first 1,000 U.S. options contracts traded per month (subject to exchange surcharges for certain contracts, as set forth in more detail on the Firm's website under ibkr.com/commissions). For U.S. options volume in excess of 1,000 contracts per month, IBKR may apply the IBKR-PRO U.S. option tiered commission model to the contracts executed above the first 1,000.
4. For IBKR-PRO clients trading U.S. options, IBKR only offers the Tiered-commission model. For Direct Routed option orders, the same model applies, but with no volume-tiering for the base commission.