

# **Interactive Brokers Quarterly Order Routing Report**

## **Quarter Ending December 31, 2001**

### **I. Introduction**

Interactive Brokers (“IB”) has prepared this report pursuant to a U.S. Securities and Exchange Commission (“SEC”) rule requiring all brokerage firms to make publicly available quarterly reports describing their order routing practices. This report is intended to describe how and where customer orders are routed when customers use IB’s Best Execution Order Routing System (or Best ECN routing option) rather than directing their order to a particular market center.

### **II. IB’s Intelligent Best Execution Routing Systems**

Interactive Brokers offers its customers two primary methods of routing their orders to the market for execution. First, IB customers may directly route their orders to a particular market of their choice. For stocks and options traded at multiple exchanges or ECNs, however, IB recommends that customers use IB’s intelligent Best Execution Order Routing System, which is designed to optimize both speed and price of execution. IB’s Best Execution system continually scans competing market centers and automatically seeks to route orders to the market center posting the best price, taking into account factors such as the availability of automatic order execution. Even after an order is routed, IB’s Best Execution system continually scans the relevant market centers and will cancel and re-route an unexecuted order if a better price becomes available on another market. For example, non-marketable limit orders received by IB are routed to a default destination (NYSE for listed stocks and the Island ECN for Nasdaq stocks) and are then continually monitored and re-routed to the market posting the best price when they become marketable.

For securities traded on ECNs, IB also offers “Best ECN” Routing, which will look for the best prevailing price for the customer’s order among available ECNs, excluding traditional exchanges.

### **III. Importance of Automatic Execution**

ECNs and exchange automatic execution systems generally execute orders instantaneously at the posted bid or offer, rather than routing orders to a specialist or a trading crowd for manual handling. Wherever possible, when an IB customer selects “Best Execution” or “Best ECN” routing, IB routes eligible customer orders to exchanges and market centers currently offering automatic execution of orders. While automatically executed orders do not have an opportunity to be executed at a price better than the market center’s posted bid or offer, automatic execution of customer orders is faster and more certain than other methods of execution and eliminates execution of orders at prices inferior to the prices posted at the market when the order was routed to it. IB believes that use of the IB Best Execution System to route orders to the exchange or market center with the best posted price, combined with automatic execution, provides IB customers overall with the most favorable order execution.

#### **IV. Payment for Order Flow and Internalization**

IB generally does not accept payment for order flow for stock orders. An exception exists, however, for certain orders routed to the Island ECN, a broker-dealer registered with the SEC and an Electronic Communications Network (“ECN”). Island pays subscribers, such as Interactive Brokers, a rebate of \$.0010 (1/10th of 1 cent) per executed share for orders that add liquidity to the Island book. This rebate is credited against the fees charged by Island to execute other orders.

IB receives order flow payments from U.S. option exchange specialists and/or market makers pursuant to the mandatory marketing fee programs that have been adopted by the exchanges and approved by the SEC.

IB’s affiliate Timber Hill LLC acts as specialist and makes markets on stock and option exchanges and ECNs across the world. If Timber Hill has posted the best bid or offer for a security for which an IB customer is placing an order, and another specialist or market center is also posting the same best bid or offer, IB will break the tie by sending the order to the market where Timber Hill posted the bid or offer.

#### **V. Order Routing Information for Particular Types of Securities**

This section provides statistical and other information about orders that are sent through IB’s Best Execution or Best ECN Routing Systems for the following types of securities: New York Stock Exchange (“NYSE”) listed stocks; Nasdaq stocks; stocks listed on the American Stock Exchange (“Amex”) or regional exchanges; and exchange-listed options. For each of these types of securities, this section identifies the market centers most often selected by IB’s Best Execution and Best ECN systems and the percentage of various types of orders sent to those market centers. This section also addresses material relationships of IB and its affiliates to each market center to which IB routes orders.

##### **A. NYSE Stocks**

###### Summary Statistics:

Percentage of total orders that were non-directed ( <i>i.e.</i> , sent using “Best Execution or Best ECN”).....	3.7%
Percentage of total non-directed orders that were market orders....	9.6%
Percentage of total non-directed orders that were limit orders.....	90.4%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	NYSE:		
		Percentage of total non-directed orders.....	70.5%
		Percentage of non-directed market orders.....	71.9%
		Percentage of non-directed limit orders*.....	70.3%

**\* NOTE: Non-marketable limit orders for NYSE stocks are all routed to the NYSE. Such orders are then continually monitored and are re-routed if they become marketable at another market center.**

2.	Island:		
		Percentage of total non-directed orders.....	13.3%
		Percentage of non-directed market orders.....	16.2%
		Percentage of non-directed limit orders.....	12.9%

3.	Instinet:		
		Percentage of total non-directed orders.....	7.1%
		Percentage of non-directed market orders.....	2.5%
		Percentage of non-directed limit orders.....	7.7%

4.	Amex:		
		Percentage of total non-directed orders.....	6.7%
		Percentage of non-directed market orders.....	8.3%
		Percentage of non-directed limit orders.....	6.5%

5.	Redibook:		
		Percentage of total non-directed orders.....	2.3%
		Percentage of non-directed market orders.....	1.1%
		Percentage of non-directed limit orders.....	2.4%

Material Aspects of IB Relationship with Execution Venues for NYSE Stocks

Interactive Brokers does not accept payment for order flow from, or otherwise have any material financial relationship with, any execution venues for NYSE stocks, except that Island pays subscribers a liquidity credit for certain orders as described above.

**B. Nasdaq Stocks**

Summary Statistics:

Percentage of total orders that were non-directed  
(i.e., sent using "Best Execution or Best ECN")..... 32.5%

Percentage of total non-directed orders that were market orders.... 7.0%

Percentage of total non-directed orders that were limit orders..... 93.0%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	Island:	Percentage of total non-directed orders.....	59.0%
		Percentage of non-directed market orders.....	42.7%
		Percentage of non-directed limit orders.....	60.4%
2.	Instinet:	Percentage of total non-directed orders.....	22.5%
		Percentage of non-directed market orders.....	9.9%
		Percentage of non-directed limit orders.....	23.5%
3.	SuperSOES:	Percentage of total non-directed orders.....	7.9%
		Percentage of non-directed market orders.....	26.5%
		Percentage of non-directed limit orders.....	6.4%
4.	Redibook:	Percentage of total non-directed orders.....	4.3%
		Percentage of non-directed market orders.....	8.9%
		Percentage of non-directed limit orders.....	3.9%
5.	Archipelago:	Percentage of total non-directed orders.....	3.3%
		Percentage of non-directed market orders.....	6.7%
		Percentage of non-directed limit orders.....	3.0%
6.	Bloomberg Tradebook (B-Trade):	Percentage of total non-directed orders.....	1.6%
		Percentage of non-directed market orders.....	2.9%
		Percentage of non-directed limit orders.....	1.5%
7.	Brut:	Percentage of total non-directed orders.....	1.1%
		Percentage of non-directed market orders.....	2.1%
		Percentage of non-directed limit orders.....	1.0%

Material Aspects of IB Relationship with Execution Venues for Nasdaq Stocks

Interactive Brokers does not generally accept payment for order flow from, or otherwise have any material financial relationship with, any execution venues for Nasdaq stocks, except that Island pays subscribers a liquidity credit for certain orders as described above.

Because of its fast execution speed and relatively lower fees, if the Island ECN is posting the best bid or offer for a Nasdaq stock or other security for which an IB customer has placed an order, and another market center is also posting the same best bid or offer, IB generally will break the tie by sending the order to Island. In addition, non-directed, non-marketable limit orders for Nasdaq stocks are all routed to the Island ECN. Such orders are then continually monitored and are re-routed if they become marketable at another market center.

IB's affiliate Timber Hill LLC is an active trader of stocks for its own account. Timber Hill LLC is a registered market maker in certain Nasdaq stocks, and currently participates in Nasdaq's SuperSOES system. IB customer orders can trade with Timber Hill orders if Timber Hill has posted the best bid or offer for a Nasdaq security and an IB customer order is matched with a Timber Hill order pursuant to the execution algorithms used by SuperSOES and the ECNs.

**C. American Stock Exchange and Regional Exchange-Listed Stocks**

Summary Statistics:

Percentage of total orders that were non-directed ( <i>i.e.</i> , sent using "Best Execution or Best ECN").....	20.7%
Percentage of total non-directed orders that were market orders....	4.7%
Percentage of total non-directed orders that were limit orders.....	95.3%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	Amex:		
		Percentage of total non-directed orders.....	66.5%
		Percentage of non-directed market orders.....	65.9%
		Percentage of non-directed limit orders.....	66.6%
2.	Island:		
		Percentage of total non-directed orders.....	25.5%
		Percentage of non-directed market orders.....	30.3%
		Percentage of non-directed limit orders.....	25.1%
3.	Instinet:		
		Percentage of total non-directed orders.....	7.4%
		Percentage of non-directed market orders.....	3.8%
		Percentage of non-directed limit orders.....	7.7%

Material Aspects of IB Relationship with Execution Venues for Amex and Other Regional Exchange-Listed Stocks

Interactive Brokers does not generally accept payment for order flow from, or otherwise have any material financial relationship with, any execution venues for Amex and other regional-exchange listed stocks, except that Island pays subscribers a liquidity credit for certain orders as described above.

**D. Exchange-Listed Options**

Summary Statistics:

Percentage of total orders that were non-directed ( <i>i.e.</i> , sent using “Best Execution”).....	60.7%
Percentage of total non-directed orders that were market orders....	6.4%
Percentage of total non-directed orders that were limit orders.....	93.6%

NOTE: Non-marketable limit orders for listed options are routed to a default destination and then are continually monitored and are re-routed if they become marketable at another market center.

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	International Securities Exchange (“ISE”):	
	Percentage of total non-directed orders.....	61.9%
	Percentage of non-directed market orders.....	51.3%
	Percentage of non-directed limit orders.....	62.7%
2.	Philadelphia Stock Exchange (“PHLX”):	
	Percentage of total non-directed orders.....	16.6%
	Percentage of non-directed market orders.....	15.8%
	Percentage of non-directed limit orders.....	16.7%
3.	Chicago Board Options Exchange (“CBOE”):	
	Percentage of total non-directed orders.....	9.4%
	Percentage of non-directed market orders.....	15.0%
	Percentage of non-directed limit orders.....	9.0%
4.	Pacific Exchange (“PCX”):	
	Percentage of total non-directed orders.....	8.9%
	Percentage of non-directed market orders.....	13.6%
	Percentage of non-directed limit orders.....	8.5%

5. American Stock Exchange (“Amex”):
 

Percentage of total non-directed orders.....	3.2%
Percentage of non-directed market orders.....	4.3%
Percentage of non-directed limit orders.....	3.1%

Material Aspects of IB Relationship with Listed Option Market Centers

**Affiliate Relationship:** IB’s affiliate Timber Hill LLC acts as a specialist or market maker on all U.S. option exchanges. If Timber Hill is a specialist or market maker on an exchange that has posted the best bid or offer for an option contract for which an IB customer has placed an order, and another exchange is also posting the same best bid or offer, IB will break the tie by sending the order to the exchange where Timber Hill is acting as specialist or market maker.

If several exchanges are posting the same best bid or offer but a Timber Hill specialist or market making unit is not at the NBBO, IB generally will break the tie by sending the order to ISE, because of that exchange’s efficiency and execution speed and because it suffers fewer execution problems than the floor-based exchanges.

**Exchange Marketing Fee/Payment for Order Flow Programs:** Listed option exchanges recently have experimented with imposition of “marketing fees” charged on a per contract basis to members and then collected and redistributed by exchange specialists/primary market makers. Under these SEC-approved plans, the marketing fees typically are expected to be redistributed in the form of payment for order flow or used in other ways to increase the relevant exchanges’ market share. IB has received varying marketing fee payments from several exchange specialists and market makers, including IB’s affiliate Timber Hill LLC. Receipt of payment for order flow under these exchange programs plays no role in determining where IB routes non-directed customer orders. As of the date of the release of this report, several exchanges have suspended their marketing fee plans.

**VI. Order Routing Information for Particular Orders Available Upon Request**

Under SEC Rule 11Ac1-6(c), upon request of a customer, a broker-dealer is required to provide information regarding the identity of the market center to which any customer order (or all orders) was 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 e-mail the IB Customer Service Desk at [help@interactivebrokers.com](mailto:help@interactivebrokers.com) if you wish to receive the above information for any order(s) within the past six months. Please type “Request for Order Routing Information” in the subject line of the e-mail 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).