

Protection of clients' funds and securities

Version dated 7 January 2020 - all clients of LYNX should be made aware of any changes that occur to the content of this document.

Introduction

LYNX B.V. (hereinafter 'LYNX') is allowed to provide investment services and make investment recommendations on the basis of a license as investment firm granted by the Netherlands Authority for the Financial Markets (hereinafter 'AFM'). In this context, LYNX is supervised by the AFM and De Nederlandsche Bank (Dutch Central Bank, hereinafter 'DNB'). The investment services that LYNX provides consist of receiving and transmitting orders to Interactive Brokers (U.K.) Limited (hereinafter 'IB UK'). This is referred to as execution-only service, whereby LYNX acts as the introducing broker of IB UK. IB UK is then responsible for arranging for the execution of these orders. IB UK executes orders by itself or by using its US affiliate Interactive Brokers LLC (hereinafter 'IB LLC').

Who is IB UK?

IB UK is a subsidiary of Interactive Brokers Group, Inc. (hereinafter 'IBG'), an American company. IBG owns operating subsidiaries including Interactive Brokers LLC ('IB LLC'), which has been a registered broker-dealer with the SEC since 1994. IBG is listed on the Nasdaq stock exchange (ticker code: IBKR) in the United States and has a market value of more than 19 billion USD as of the 7th of January 2020. Through its subsidiaries, IBG processes an average of 859,000 transactions per day and has more than 660,000 clients worldwide, who consolidated hold more than USD 156 billion in assets at IBG.¹



IB LLC is as carrying broker offering clearing, settlement and custodial services to introducing broker LYNX.

Why is LYNX an introducing broker from IB UK?

Due to the connection with IB UK, LYNX is able to provide clients access to 125 exchanges in 31 countries. On most of these exchanges, clients are given the opportunity to invest directly in stocks, options, futures, structured products, bonds, commodities, ETFs and CFDs. Additionally, clients have access to 22 different currencies.

Clients' orders submitted to LYNX and arranged for the execution by IB UK are not sold to high frequency traders or market makers. Reselling client orders to third parties that act as counterparties has a negative effect on the actual transaction price.

Clients also have access to IB LLC's high-speed best execution order routing system (SmartRoutingSM), which is connected to many exchanges and markets. This technology scans the various stock exchanges and seeks to route orders to the best market taking into consideration execution price, speed, and total cost of execution.

¹ Source of data: Interactive Brokers, Third Quarter Results 2019

In summary, as an introducing broker of IB UK, LYNX is able to let investors invest worldwide with the most advanced trading infrastructure.

How are my funds and positions held with IB UK and IB LLC?

To offer clients worldwide trading possibilities in all kinds of financial instruments, the investment account is legally constructed out of three different segments under IB UK and its affiliate IB LLC. The safekeeping of your funds² and positions depends on which account segment is keeping these assets. This is determined by the type of financial instrument that the client invests in. See the image below for an overview:

| Client investment account | | |
|--|--|--|
| IB LLC Securities account² | IB LLC Commodities account | IB UK Regulated account |
| Stocks, ETFs, stock options, US index options, stock futures, bonds and mutual funds. | Non-stock futures and options on futures ³ . | Futures and options on futures ³ , non-US index options, CFDs and metals. |

²Deposits from your bank account are received on the Securities Account.

³If a UKL UK Regulated Account is open, then only US, Canadian, Mexican and Australian futures and options on futures remain in the Commodities Account. All others are moved to the Regulated Account.

So, IB LLC holds both the Securities and the Commodities Account and IB UK holds the Regulated Account. The custody and protection differ per account segment and is explained below.

IB LLC Securities Account

How are my securities and funds protected?

Both financial instruments and cash in client Securities Accounts are required to be kept separate from the assets of IBLLC. Any cash or financial instruments custodied with third-party financial institutions are titled for the benefit of the clients of IBLLC and are segregated at all times including in the event of default or bankruptcy of the broker. IB LLC uses a range of banks to custody client cash to avoid a concentration risk with any single institution. IB LLC performs routine checks on these custody accounts of clients.

How are my securities protected when trading with margin?

The financial instruments that are financed with margin may possibly be lent to other financial institutions (for example to facilitate short selling). When clients borrow money from IB LLC to purchase securities, IB LLC is allowed to lend any shares which it carries with a value up to 140% of the margin loan value.

IB LLC generally requires the counterparty who borrows the shares to provide funds equal to at least 102% of the market value of the borrowed shares as collateral. Each trading day, the collateral is adjusted based on the market price of the borrowed shares. The funds that serve as collateral must be kept separately by IB LLC, and solely for the benefit of clients. In a scenario where a counterparty can no longer return the loaned items, the value of the items is therefore covered by the funds.

How are my derivative contracts protected?

When trading derivatives via IB LLC, the funds required to meet the margin requirements are kept in a segregated account for clients at the relevant clearing house, separate from IB UK's own assets. These funds are held by the relevant clearinghouse exclusively for the benefit of clients. Clearing institutions guarantee the counterparty risk in the derivative contract.

What happens if IB LLC goes bankrupt?

IB LLC is a member of the Securities Investor Protection Corporation ('SIPC'). SIPC protects against the loss of cash and securities held by a client at a SIPC-member brokerage firm such as IB LLC. Therefore, the cash and/or securities under the Securities Account are protected by SIPC. SIPC covers cash to the extent that the cash was deposited with IB LLC for the purpose of purchasing securities. The maximum coverage (limit) of SIPC protection is USD 500,000 (with a sublimit of USD 250,000 for cash) per client for all accounts at the same institution. In addition, IB LLC has extra insurance with Lloyd's for an additional USD 30,000,000 (with a sublimit of USD 900,000 for cash) with an aggregate firm limit of USD 150,000,000. SIPC does not cover commodity futures, options on futures, or cash in the commodity account. SIPC does not protect against the decline in value of your securities.

When a brokerage firm fails, SIPC gets involved to oversee the liquidation of the firm when cash and/or securities are missing from customer accounts. SIPC initiates the liquidation process when it receives a referral from a U.S. securities regulator. When starting a liquidation, SIPC asks the federal bankruptcy court to appoint a Trustee to liquidate the firm and protect its customers. Clients of the financial institution are given priority over potential creditors. Clients have a claim against the brokerage firm in the amount of the client's "net equity." A client's "net equity" is the value of cash and securities owed by the brokerage firm to the client, minus the amount of any indebtedness that the client owes to the brokerage firm.

More information about SIPC protection can be found on the website of the [SIPC](#) and [FINRA](#)²

² Non-governmental organization self-regulatory organization that regulates member brokerage firms and exchange markets in the US.

What happens, when you hold multiple accounts?

Multiple accounts maintained in the same name and taxpayer ID number are grouped for purposes of applying the maximum per client protection limits. However, if you hold accounts with IBKR in separate capacities (for example, an account in your name, a trust account of which you are the trustee or a beneficiary, or a joint account), then each account would be protected by SIPC and the supplementary protection up to the stated limits.

IB LLC Commodities Account**How are my funds protected?**

Client cash in the Commodity Account custodied with IB LLC is kept separate from the assets of IB LLC by means of a segregated commodities account, as required by the Commodity Exchange Act ('CEA') and the U.S. Commodity Futures Trading Commission ('CFTC'). The funds in the Commodity Account may only be used for the trading activities in the Commodities Account, such as buying and selling futures and options on futures.

What happens if IB LLC goes bankrupt?

For the Commodities Account, if funds are not borrowed and no futures are held, the funds and financial instruments are available to the client in the event of IB LLC bankruptcy as the funds and financial instruments are segregated. If commodity segregated assets are insufficient to meet claims and the broker is insolvent, clients share equally in shortfall and become general creditors for residual claims. In case of borrowing or when futures are held, clearing institutions guarantee the counterparty risk. SIPC does not generally cover commodity futures or options on futures or cash or foreign currency that is not deposited for the purpose of purchasing securities.

IB UK Regulated Account

IB UK is regulated by the UK's Financial Conduct Authority ('FCA') and protects clients by applying FCA's Client Asset ('CASS') Rules.

How are my funds protected at IB UK?

The funds that clients hold in an account at IB UK are held in trust for clients, and are separate from IB UK's own assets. Funds belonging to clients are placed in segregated bank accounts with a range of banks.

How are my securities protected at IB UK?

There are no securities traded via IB UK, only derivative contracts.

How are my derivative contracts protected at IB UK?

Derivatives are also protected under the FCA's CASS rules. When trading derivatives via IB UK, the funds required to meet margin requirements are also kept in a segregated account for clients at the relevant clearing house, separate from IB UK's own assets. Clearing institutions guarantee the counterparty risk in the derivative contract.

What happens if IB UK goes bankrupt?

Client funds are held in accounts in a trust for clients, separate and distinct from IB UK's own assets, according to the CASS rules. Consequently these funds are not available to IB UK's creditors, and instead would be returned to clients.

IB UK also participates, as an authorized investment firm based in the United Kingdom, in the UK's Financial Services Compensation Scheme ('FSCS'). In the unlikely event that IB UK cannot meet its financial obligations, the client can make a claim to the FSCS⁴. This means that if IB UK, following bankruptcy, is unable to return all your funds, the FSCS can compensate for a shortfall. The FSCS protects clients who have placed money with IB UK. The compensation under the FSCS is a maximum of GBP 85,000 per client and comes into effect if IB UK can no longer meet its financial obligations. The FSCS compensation does not cover market losses on your investments. More information about the FSCS can be found on the website of the [FSCS](#).

⁴The UK compensation fund is intended for private clients and small businesses, wherever they are located.

LYNX**What happens if LYNX goes bankrupt?**

In the unlikely event that LYNX goes bankrupt, as a result of which LYNX can no longer meet its obligations related to the Basic Agreement, clients may be able to rely on the Dutch Investor Compensation Scheme, in Dutch 'Beleggerscompensatiestelsel' (BCS). LYNX holds a licence as investment firm pursuant to the Dutch Financial Supervision Act and participates in the BCS.

The maximum compensation under the Dutch investor compensation scheme is EUR 20,000 per client. Clients can claim the BCS if LYNX should unexpectedly go bankrupt and as a result of mismanagement or fraud LYNX can no longer meet its financial obligations and the funds and/or financial instruments of clients can no longer be returned. Since clients of LYNX hold their funds and/or financial instruments with IB LLC and IB UK, the situation in which LYNX cannot return funds and/or financial instruments from clients will not arise.

More information about the Dutch investor compensation scheme can be found on the websites of the [AFM](#) and [DNB](#).