



# Important Characteristics and Risks of Participating in Interactive Brokers LLC's Fully-Paid Securities Lending Program

You should read these disclosures together with the (i) Interactive Brokers Master Securities Lending Agreement for Fully-Paid Lending Program (the "Agreement") and the (ii) Securities Account Control Agreement (the "Collateral Agreement") carefully before deciding to participate in IB's Fully-Paid Securities Lending Program.

## Introduction

Interactive Brokers LLC ("IB") offers eligible customers the ability to lend certain of their fully paid and excess margin securities to IB for on-lending to other IB customers or to other market participants who wish to use these shares for short selling, to make required deliveries or other purposes. **"Fully-paid securities" are securities in your account that have been completely paid for. "Excess-margin securities" are any securities in your account that, in aggregate, have a market value that exceeds 140% of your account's debit balance(s).** In this disclosure and in the relevant agreements, we collectively refer to fully-paid and excess margin securities as **"Fully-Paid Securities" or "Fully-Paid Shares"**. Lending your Fully-Paid Shares may be a way to increase the yield on your portfolio, because some shares are in high demand in the securities-lending market and borrowers are willing to pay for the use of your shares.

## Securities Loaned Out By You May Not Be Protected by SIPC

**The provisions of the Securities Investor Protection Act of 1970 ("SIPA") may not protect you as a lender with respect to securities loan transactions in which you lend your Fully-Paid Securities to IB. Therefore, the collateral delivered to you (and indicated on your account statement) may constitute the only source of satisfaction of IB's obligation in the event that IB fails to return the securities.**

**Stock Yield Enhancement Program:** In the IB Stock Yield Enhancement Program, you permit IB to borrow any Fully-Paid Securities in your account and loan these securities out in the securities lending market. By participating in the IB Stock Yield Enhancement Program, you are granting to IB the discretion to borrow your Fully-Paid Securities without contacting you, obtaining your prior approval of any given loan or the amount of

interest you will be paid for lending your Fully-Paid Securities. You will still be able to sell any securities in your account at any time, regardless whether they are currently on loan to IB. You will also be able to terminate your participation in the Stock Yield Enhancement Program at any time, automatically terminating any outstanding loans of Fully-Paid Securities. IB will pay you interest in connection with its borrowing of your Fully-Paid Securities. The interest rate IB pays you will approximate a percentage of the net income received by IB for lending your securities. IB's net income may be less than the gross income received by IB for relending your securities because of certain deductions and charges, as explained below. IB may make certain assumptions in computing the net amounts.

### **Basic Mechanics of a Fully-Paid Lending Transaction**

When the lending transaction takes place, the securities borrowed will be debited from your account, though they will still be reflected on your account statements as securities on loan to IB. IB will provide you with collateral to secure IB's obligation to return the securities upon termination of the loan.

By participating in the Stock Yield Enhancement Program, you are not lending your Fully-Paid Securities directly to the ultimate borrower. IB will be the borrower in respect of each loan and will be responsible as principal for returning your securities to you upon termination of the loan, providing you collateral during the term of the loan and paying you interest monthly in respect of securities loaned to IB.

### ***Securities Loaned Out by You Are Typically Used to Facilitate Short Sales***

The type of securities that are generally attractive to borrowers in the securities lending market, and which generate the highest income potential, are "hard to borrow" securities. When you lend your Fully-Paid Securities, it is likely that such securities will be used to facilitate one or more short sales or satisfy delivery requirements resulting from short sales. Since you are holding the shares "long" in your account, the activity of short sellers potentially could affect the value of your holdings. You may elect not to permit securities that are the subject of a loan to be used in connection with a short sale of the subject securities. If you elect not to permit your securities to be used in connection with a short sale of the subject securities, IB will terminate any then-outstanding loan and un-enroll your account from the Stock Yield Enhancement Program to prevent the borrowing of the security for that purpose. If you do not want your fully-paid securities used to facilitate short sales, you should NOT participate in IB's Fully Paid Securities Lending Program.

### ***You Continue to Own Loaned Shares and Have Market Risk on Those Shares***

When you lend securities to IB, you continue to own the securities and you continue to have the market exposure inherent in ownership of the securities (i.e., if the share price increases while you own the shares but are lending them out, the value of the securities you are entitled to receive back upon termination of the loan will increase; if the share

price goes down, the value of the securities you are entitled to receive back upon termination of the loan will decrease).

### ***You Can Sell Your Loaned Securities At Any Time***

Even though you have loaned your securities out, you can sell those securities at any time, just like any other securities in your IB account. Your sale of the securities will constitute a termination of the loan effective on the settlement date of the sale. You do not have to take any other action to terminate the loan or wait for the shares to be returned prior to selling them. Even if the shares are not returned in time to settle your sale of the shares, IB will be responsible for settling the sale, not you, and you will receive the proceeds from the sale of the shares on the normal settlement date for the sale.

### ***Collateral for Loaned Securities***

Pursuant to the Agreement, in exchange for the loaned securities, IB will deliver collateral to you. Collateral provided to you in respect of loaned securities will consist of cash and/or U.S. Treasury securities deposited in an account (the "Pledge Account") carried by IBKR Securities Services LLC (the "Securities Intermediary"), an affiliate of IB registered as a broker-dealer pursuant to section 15 of the Securities Exchange Act of 1934, as amended. The Securities Intermediary establishes the Pledge Account in the name of IB pledged for your benefit. Pursuant to the Agreement, funds and securities deposited in the Pledge Account are pledged as collateral to secure IB's obligation to return loaned securities to you. The Securities Intermediary, in accordance with the terms of the Collateral Agreement, maintains the Pledge Account and, in the event of an uncured default by IB, upon delivery of a notice of exclusive control by you to the Securities Intermediary, will accept instructions from you to deliver the collateral to you.

Prior to any delivery by you of a notice of exclusive control, pursuant to the Agreement and the Collateral Agreement, you authorize IB to make deposits to and withdrawals from the Pledge Account without further consent by you. Pursuant to the Agreement and applicable regulations, IB will mark the loaned securities to market at the close of trading on each business day and, if necessary, will either provide you additional collateral or withdraw excess collateral on the next business day so that the market value of the collateral is at least equal to 100% of the prior day's market value of the loaned securities. There is the risk that IB will default in some way, for example by becoming insolvent, which could result in IB failing to return borrowed securities to you. If IB's default results from something other than an act of insolvency, IB will have the right to cure that default.

If IB defaults and the market value of the loaned securities increases in value, the collateral provided by IB may be insufficient to fully collateralize the loaned securities. Because it acts as the custodian of the collateral in the Pledge Account, you may also be impacted by any default or insolvency of the Securities Intermediary. The most

recent statement of financial condition of the Securities Intermediary is available at <https://www.interactivebrokers.com/en/index.php?f=289>.

You will not receive separate notices from the Securities Intermediary with respect to deposits to and withdrawals from the Pledge Account. Your IB account statement will reflect the current cash balance and U.S. Treasury securities custodied in the Pledge Account as of the statement date and will reflect all deposits to and withdrawals from the Pledge Account during the statement period. You may obtain information about the Pledge Account and confirm balances and positions in the Pledge Account directly with Securities Intermediary by email to [ibkrss\\_saca\\_questions@ibkr.com](mailto:ibkrss_saca_questions@ibkr.com).

You have a lien on collateral held in the Pledge Account granted to you under the Agreement, but you do not own the collateral and are not entitled to any market price increase in the collateral. The collateral must be returned to IB upon termination of the securities loan. A portion of the collateral will count as "buying power" for your IB securities account, however, neither the collateral in the Pledge Account nor any loaned securities will count as "equity" in your IB account for the purposes of initial margin or maintenance margin under the margin rules, including Regulation T of the Board of Governors of the Federal Reserve System and Rule 4210 of the Financial Industry Regulatory Authority.

***Loan Rates (and therefore the Interest Rate You Will Receive) Are Subject to Frequent Change and Can Go Down (or Up) Significantly***

Rates for "hard to borrow" and other securities change frequently, even daily, in the securities-lending market and this can reduce (or increase) the loan interest IB pays you. Likewise, IB may change the rate it pays you compared to the income that IB receives when it lends your securities to third parties. You will not have direct control over when to initiate or terminate loans of specific shares (including based on rate changes). However, you can always terminate your participation in the program (which will terminate all of your lending transactions) if you are unhappy with the interest rates you are receiving or the nature or frequency of rate changes. Please note, though, that if you terminate your participation in the Stock Yield Enhancement Program, you may not be permitted to re-join the program, or you may have to wait a certain length of time to re-join.

***Potential Adverse Tax Consequences from Receiving Substitute Payments or Payments in Lieu of Distributions on Loaned Securities***<sup>1</sup>

When you lend your Fully-Paid Securities, you will be entitled to receive all distributions (as that term is defined in the Agreement) made on or in respect of the securities, such as cash or securities dividends, interest payments, securities received as a result of splits, spin-offs or similar distributions, and rights to purchase additional securities. In the event that the holder of a security borrowed from you is entitled to elect the type of distribution to be received from two or more alternatives, you shall be entitled to make such election by timely notification to IB. However, you will receive substitute payments

(e.g., a cash substitute payment) in lieu of receiving dividends or other types of distributions directly from the issuer. Certain unique distributions may not be capable of being exactly replicated as a manufactured payment by IB. For example, cash payments in lieu of dividends may not be afforded the same treatment as qualified dividends for tax purposes and are likely to be taxed at a higher tax rate for U.S. taxpayers instead of the preferential qualified dividend rate. Special tax considerations may apply to loans of master limited partnerships, publicly traded partnerships or other securities with pass-through tax characteristics. IB may be required to withhold tax on payments in lieu of dividends on U.S. and foreign stocks and loan interest paid to you unless an exception applies. IB intends to treat the loan interest payments to you as interest payments, but different tax authorities may treat such payments differently.

You should consult a tax advisor regarding the tax implications of entering into the Agreement and lending securities to IB, the receipt of substitute payments under applicable federal, state and local tax laws, as well as any foreign tax regulations, circumstances where a securities loan could be treated as a taxable disposition of the loaned securities, and treatment of loan interest.

If you permit IB to borrow securities from you through the IB Stock Yield Enhancement Program and you are a U.S. taxpayer, IB may recall loaned shares from the borrower prior to a dividend, so as to reduce potential negative tax consequences to you. However, it is solely within IB's discretion to recall a loan and IB makes no guarantee it will recall a loan prior to a dividend. With respect to other corporate actions affecting loaned shares, non-cash distributions that you are entitled to receive in connection with ownership of loaned securities will be added to the loaned securities on the date of distribution and will be transferred to you at termination of the loan.

### ***Loan Termination***

IB may terminate your loan at any time in its sole discretion. When the loan is terminated, shares will be returned to your account. If you permit IB to borrow securities through the IB Stock Yield Enhancement Program, you will not have direct control over when to initiate loans of specific shares or when IB may choose to terminate any loan. You may terminate a loan at any time by selling the security that is the subject of the loan or requesting delivery or transfer of the security to another custodian. Under the terms of the Agreement, you may also terminate a loan by notice to IB; please note, however, that if the security remains in your account with IB and your account remains enrolled in the IB Stock Yield Enhancement Program, the security may be promptly re-borrowed by IB. If you would like to terminate a loan and prevent it from being re-borrowed by IB, you can terminate your participation in the program (which will terminate all of your lending transactions) by unenrolling under "Stock Yield Enhancement Program" within the "Account Settings" section of the Client Portal.

### ***Conflicts; Non-Exclusive Arrangement; IB Discretion to Borrow; Payments to Third Parties***

IB is not required to borrow your securities and may, in its sole discretion, borrow from other parties securities equivalent to securities available to be borrowed from you. IB's choices both on the securities it borrows and how it chooses to use those securities impact the loan interest payable by IB to you. If you participate in the Stock Yield Enhancement Program and maintain a debit balance in your account, IB may rehypothecate your securities in accordance with your margin account agreement with IB without paying you loan interest, rather than borrow your securities pursuant to the Agreement. Similarly, if IB borrows securities from you pursuant to the Agreement and you thereafter incur a margin debit balance, IB may terminate the Loan and then rehypothecate the securities that had previously been the subject of a loan without paying you loan interest. IB may pay part of the loan income it earns on shares borrowed from you to third parties such as your financial advisor or introducing broker who may introduce your account to IB. These payments may reduce the interest rate you receive for the entire duration of the loan.

### ***Key Factors Influencing the Amount of Compensation IB May Earn***

The key factors that influence the amount of compensation IB may earn from borrowing securities loaned by you are (i) the availability of the securities for lending in the marketplace relative to the demand to borrow such securities; (ii) then-current interest rates, which impact what IB may earn from re-investing cash collateral received from counterparties to which it lends securities; (iii) commissions, interest and other fees IB may earn from customers that borrow securities from IB to sell short through IB or in accounts carried by IB.

### ***Key Factors Influencing Loan Interest Paid to You***

You will be paid loan interest by IB for the loan of your securities. The interest payable to you in respect of any particular loan as of a given date is detailed on your daily account statement. You will not receive any portion of any other compensation IB may earn in connection with the re-lending of your securities, including, without limitation, any interest IB may earn on collateral provided to you, any interest IB may earn on collateral provided to it by counterparties to which it re-lends the loaned securities, any fees IB may earn from counterparties to which it re-lends the loaned securities, or any commissions IB may receive in connection with any executions of transactions for the account of parties that borrow securities from IB. The key factors that influence the amount of loan interest paid to you is (i) the availability of the securities for lending in the marketplace relative to the demand to borrow such securities; (ii) the average loan interest earned by IB in lending securities of the same class to third parties during the term of your loan; (iii) current interest rates; and (iv) whether IB shares a portion of the compensation it earns from re-lending securities borrowed from you with a third party such as your introducing broker or financial advisor. The loan interest rate may be changed from time to time in IB's sole discretion and different rates may be paid to different customers based on a variety of factors, including the size of the customers' loan portfolios and the types of Fully-Paid Securities available in the customers' accounts. If you participate in the IB Stock Yield Enhancement Program and IB borrows

your Fully-Paid Securities, IB will accrue interest for your account daily and credit your account with the loan interest monthly.

***There Is No Guarantee That You Will Receive the Best Loan Rates for Your Shares*** The securities lending market is not a standardized or transparent market. Securities lending transactions generally take place "over the counter" rather than on organized exchanges where prices and transactions are transparent. IB cannot and does not guarantee that it will pay the highest rate for borrowing your shares. IB may not have access to the markets or counterparties that are offering the most favorable rates, or may be unaware of the most favorable rates. IB, or its affiliates through which it conducts certain securities-lending activities, will typically receive a higher rate from its securities-lending counterparties than it pays to you for the loan of your securities, thus earning a spread. You may always terminate your participation in the program if you are unhappy with the rates you are receiving.

### ***Loss of Voting Rights With Respect to Loaned Securities***

You may lose the right to vote, or to provide any consent or to take any similar action with respect to, loaned securities in the event that the record date or deadline for such vote, consent, or other action falls during the term of any loan.

### ***IB's Right to Liquidate Securities Upon Your Default***

IB will have the right to liquidate any securities loan upon an event of Default (as that term is defined in the Agreement) by you, which include, without limitation, your: (a) applying for or consenting to, or becoming the subject of an application for, the appointment of or the taking of possession by a receiver, custodian, trustee, or liquidator of all or a substantial part of your property; (b) admitting in writing your inability, or becoming generally unable, to pay your debts as such debts become due; (c) making a general assignment for the benefit of your creditors; or (d) filing, or having filed against you, a petition under Title 11 of the United States Code (the Bankruptcy Code), or having filed against you an application for a protective decree under Section 5 of SIPA, unless the right to liquidate such transaction is stayed, avoided, or otherwise limited by an order authorized under the provisions of SIPA or any statute administered by the SEC.

### **NOTES**

1. IB does not provide any investment, tax or trading advice. The information in this paragraph is general information only and does not take into account your personal circumstances. You should speak to an independent tax expert to understand the tax implication to you (if any) as a result of participating in the program.