

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100234784-01

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Interactive Brokers LLC, Respondent
Broker-Dealer
CRD No. 36418

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Interactive Brokers LLC ("IBKR" or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

The firm has been a member of FINRA since January 6, 1995, and its registration remains in effect. The firm does not have any relevant disciplinary history.

SUMMARY

In connection with 20100234784, the Trading Analysis Staff of FINRA's Department of Market Regulation (the "staff") reviewed the trading activity of the firm's customers and the firm's related supervisory system during the period of December 1, 2009 through May 17, 2010.

In connection with 20110265287, the staff reviewed the trading activity of the firm's customers and the firm's related supervisory system during the period of October 8, 2010 through March 18, 2011.

FACTS AND VIOLATIVE CONDUCT

20100234784

1. The supervisory system at IBKR that was designed to prevent and detect possible wash sales and pre-arranged trading activity had two deficiencies that involved the review of customer orders on a pre-execution and a post-execution basis during the period of December 1, 2009 through May 17, 2010.

Pre-Execution Reviews of Customer Order Activity

2. During the period reviewed, the firm's systems failed to prevent 59 transactions in the common and preferred stock of 34 securities that resulted from matched limit orders that were entered by or for the same customer account or related customer accounts. The matched limit orders were placed up to 32 seconds apart, although many of the orders were placed within seconds of each other, at the same or substantially the same price, and for the same or substantially the same quantity of shares. Further, a majority of the matched limit orders were entered using the same Internet Protocol ("IP") address.
3. The common stock limit orders were entered primarily during pre-market and post-market hours, which increased the likelihood that the orders would execute against one another because the equity markets are generally less liquid outside of normal market hours. Similarly, there is an increased likelihood of matching limit orders in preferred stock, even if affected during normal market hours, because such securities are generally less liquid than common stock.
4. A system error resulted in the related customer accounts being treated as inactive in 50 of the 59 transactions and not subject to the firm's software that was designed to prevent such executions. In April 2010, the firm remedied the system problem that treated certain related accounts as inactive, but the same related customer accounts entered matched limit orders on May 17, 2010 that resulted in nine of the 59 total transactions that the firm's systems were designed to prevent. The firm did not know the reason for the system failure on May 17, 2010.

Post-Execution Reviews of Customer Order Activity

5. On a post-execution basis, the firm's systems also generated a report to identify the firm's customers that were on opposite sides of the same transaction. The report was then compared against the firm's database of related accounts to determine if the accounts traded with one another. In 13 instances, however, the firm failed to identify transactions that resulted from the matched limit orders described above. The same system error that resulted in the related customer accounts being treated as inactive also prevented the firm from identifying transactions between related accounts that should have been subject to further scrutiny on a post-execution basis.

6. As a result of the conduct described above, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and FINRA Rules concerning the prevention and detection of potentially manipulative trading activity. Specifically, the firm's supervisory system was not reasonably designed, and lacked adequate controls, to prevent and detect possible wash sales and pre-arranged trading activity conducted by the firm's customers. The conduct described herein constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

20110265287

7. The firm's supervisory system that was designed to prevent and detect the firm's customers' pre-arranged trading activity was deficient during the period of October 8, 2010 through March 18, 2011.
8. During the period reviewed, the firm's systems failed to prevent and detect 1,506 transactions in the common stock of Uni Core Holdings Corp. ("UCHC") shares that resulted from matched limit orders that were primarily entered by two customer accounts at the firm. The matched limit orders were placed up to 28 seconds apart, although many of the orders were placed within seconds of each other, at the same or substantially the same price, and for the same or substantially the same quantity of shares.
9. The two subject customer accounts at the firm only traded UCHC shares during the period reviewed, and their trading activity accounted for over 23 million UCHC shares, almost all of the firm's entire trading volume in the security during that period. On certain trading days during the period reviewed, the subject accounts at the firm represented 100% of the consolidated daily total media reported volume in UCHC shares.
10. At the time, the firm's supervisory system did not account for possible pre-arranged trading activity between unrelated customer accounts where, among other things, there was no commonality between the individuals, the street addresses, the telephone numbers, or the e-mail addresses associated with the respective customer accounts. The firm's failure to account for possible pre-arranged trading activity between unrelated accounts, coupled with, among other things, the undetected high number of transactions; the undetected high share volume; and the undetected high percentage of total daily volume in UCHC shares on certain trading days, rendered the firm's supervisory system deficient at the time.
11. As a result of the conduct described above, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and FINRA Rules concerning the prevention and detection of potentially manipulative trading activity. Specifically, the firm's supervisory system was not reasonably designed, and lacked adequate controls, to prevent and detect possible pre-arranged trading activity conducted by the

firm's customers. The conduct described herein constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

- B. The firm also consents to the imposition of the following sanctions:

A censure and a fine of \$57,500.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

March 22 2013
Date

Respondent

Interactive Brokers LLC

By:

Name:

Title:

David M. Battan

David M. Battan

E.V.P. & General Counsel

Reviewed by:

David M. Battan
David M. Battan, Esq.
EVP & General Counsel
Counsel for Respondent
Interactive Brokers LLC
1725 Eye Street, N.W., Suite 300
Washington, D.C. 20006
(202) 530-3205

Accepted by FINRA:

4/5/13
Date

Signed on behalf of the
Director of ODA, by delegated authority

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation