

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022075315101**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Interactive Brokers, LLC (Respondent)
Member Firm
CRD No. 36418

Pursuant to FINRA Rule 9216, Respondent Interactive Brokers, LLC (Interactive) 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Interactive, a FINRA member firm since January 1995, offers online trading through self-directed accounts and clears transactions for retail and institutional customers. The firm is headquartered in Greenwich, Connecticut, and employs approximately 390 registered representatives in seven branch offices.¹

OVERVIEW

From October 2015 to December 2022, Interactive failed to detect customers with cash accounts who engaged in “free-riding,” the buying and selling of securities before paying for them, in options and issued options, on 4,229,709 occasions, in violation of Exchange Act Section 7(c), Regulation T of the Board of Governors of the Federal Reserve System and FINRA Rules 4210 and 2010. During the same period, Interactive also violated FINRA Rules 3110 and 2010 by failing to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with Regulation T and FINRA Rule 4210.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

This matter originated from an examination conducted by FINRA's Department of Member Supervision.

Interactive did not freeze the privilege of delaying payment beyond the trade date in the cash accounts of customers who engaged in free-riding in options and issued options, as required by Regulation T and FINRA Rule 4210(f)(9).

Section 7(c) of the Securities Exchange Act of 1934 makes it unlawful for any broker-dealer to extend or maintain credit to or for any customer on any security in contravention of the rules and regulations prescribed by the Board of Governors of the Federal Reserve System, such as Regulation T. Section 220.8 of Regulation T requires, among other things, that broker-dealer customers using cash accounts pay for the purchase of a security in full before selling it. Under section 220.8(b), payment in full for the type of securities at issue here must be made within one payment period of the date the security was purchased. When a customer free-rides and buys and sells the type of security at issue here before paying for it, the broker-dealer is required to withdraw (or "freeze") the privilege of delaying payment beyond the trade date for 90 days, subject to exceptions not applicable here. During this 90-day period, the customer may still purchase securities but can only do so by fully paying for the purchase on the date of the trade.

FINRA Rule 4210(f)(9) prohibits free-riding in cash accounts and provides that no member shall permit a customer (other than a broker-dealer) to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities.

A violation of Exchange Act § 7(c), Regulation T and FINRA Rule 4210(f)(9) are also violations of FINRA Rule 2010, which requires member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

During the period from October 2015 to December 2022, Interactive failed to detect more than 20,000 cash account customers selling securities before the original purchase settled and using the proceeds of the sale to cover the cost of the original (or subsequent) transaction, instead of requiring full cash payment for each securities purchase. Specifically, the firm failed to detect 4,229,709 transactions in which customers using cash accounts traded options and issued options without having sufficient cash in their accounts to pay for the purchases.

Since October 2015, Interactive has relied on automated surveillance to monitor customer cash accounts for free-riding. However, the firm inadvertently did not program its surveillance system to monitor for free-riding in options and issued options. As a result, the firm did not identify the free-riding transactions, and therefore, for those accounts, the firm did not impose the 90-day freeze required by Regulation T and did not require payment in full for any subsequent purchase of securities during the 90-day period.

By virtue of the foregoing, Interactive violated Exchange Act Section 7(c), Regulation T of the Board of Governors of the Federal Reserve System and FINRA Rules 4210 and 2010.

Interactive failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with Regulation T and FINRA Rule 4210.

FINRA Rule 3110(a) requires member firms to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules. FINRA Rule 3110(b) requires member firms to establish, maintain, and enforce WSPs to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules.

A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

During the relevant period, Interactive's supervisory systems, including its WSPs, were not reasonably designed to achieve compliance with Regulation T and FINRA Rule 4210. Interactive used automated surveillance to monitor for free-riding in its customers' cash accounts and, when free-riding was detected, the firm imposed Regulation T's 90-day freeze and required payment in full for any subsequent purchase of securities during the 90-day period. The firm maintained an internal description of its surveillance system that stated that cash accounts would be surveilled for free-riding and would be subject to the 90-day freeze if the system detected a violation of the rule. However, the description, which listed the securities products to which the surveillance applied, failed to include options and issued options as products subject to the surveillance. Further, Interactive failed to conduct any audit or testing of its free-riding automated surveillance during the relevant period. As a result, the firm did not identify its failure to include options and issued options in the securities subject to this surveillance.

Additionally, Interactive's WSPs during the relevant period failed to contain procedures relating to the Regulation T or FINRA Rule 4210 requirements to impose a 90-day freeze on the privilege of delaying payment beyond the trade date in customer cash accounts that engage in free-riding. In January 2023, the firm updated the programming of its free-riding surveillance to include options and issued options and issued cash up front restriction notices to customers who had engaged in free-riding in the prior 90 days. The firm updated its WSPs in April 2023 to include procedures relating to Regulation T and FINRA Rule 4210's requirements to impose the 90-day freeze on customer cash accounts that engaged in free-riding. In April 2023, the Firm updated its internal description of its free-riding surveillance system to include options and issued options as products subject to the surveillance.

Therefore, Interactive violated FINRA Rules 3110 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure
- a \$2,250,000 fine

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a complaint issued specifying the allegations against it;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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 its acceptance or rejection.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

December 23, 2024

Date

Elaine Mandelbaum

Interactive Brokers, LLC
Respondent

Print Name: Elaine Mandelbaum

Title: General Counsel

Accepted by FINRA:

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

December 30, 2024

Date

Jason Mogel

Jason Mogel
Senior Counsel
FINRA
Department of Enforcement
99 High Street, Suite 900
Boston, MA 02110