

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022076789501**

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

RE: Charles Schwab & Co., Inc. (Respondent)
Member Firm
CRD No. 5393

Pursuant to FINRA Rule 9216, Respondent Charles Schwab & Co., Inc. 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

Schwab has been a FINRA member since 1970. The firm conducts a general securities business. It has more than 17,000 registered persons and nearly 450 branches, including its headquarters in Westlake, Texas.¹

OVERVIEW

Between January 2018 and May 2025, Schwab failed to report or timely report approximately 2.8 million fractional share transactions to the FINRA/Nasdaq Trade Reporting Facility (TRF) or the Over-the-Counter Reporting Facility (ORF), in violation of FINRA Rules 6380A, 6622, and 2010. Additionally, from July 2022 to July 2023, Schwab inaccurately reported approximately 690,000 fractional share transactions to the TRF and ORF, in violation of FINRA Rules 6380A, 6622, 7230A, 7330, and 2010. Finally, from January 2018 through May 2025, the firm failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to comply with its trade reporting obligations, in violation of FINRA Rules 3110(a) and (b) and 2010. For these violations, the firm is censured, fined \$175,000, and required to pay the regulatory transaction fees owed for the unreported fractional share trades pursuant to Section 3 of Schedule A to FINRA's By-Laws.

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 FINRA's 2023 cycle exam of Schwab and from FINRA market surveillance.

Schwab failed to report, and untimely reported, approximately 2.8 million fractional share trades.

FINRA Rules 6380A and 6622 set forth requirements for reporting trades in national market system (NMS) stocks to the TRF and trades in Over-the-Counter (OTC) equity securities to the ORF.² FINRA Rules 6380A(a) and 6622(a) specify that most transactions not reported within ten seconds after execution shall be designated as late. FINRA Rules 6380A(b) and 6622(b) require that FINRA members report, among others, trades executed in a principal capacity between the member and a customer.³ Trades involving fractional shares, including a trade for less than one share, are subject to FINRA's trade reporting rules.

Sales executed in a principal capacity generally are subject to a regulatory transaction fee. Section 31(c) of the Exchange Act requires FINRA to pay regulatory transaction fees and assessments to the Securities and Exchange Commission to recover costs related to the government's supervision and regulation of the securities markets and professionals. FINRA obtains its Section 31 fees and assessments from its membership in accordance with Section 3 of Schedule A to the FINRA By-Laws.⁴

Violations of FINRA's trade reporting rules are also violations of FINRA Rule 2010, which requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

The TRF and ORF provide member firms with a mechanism by which to report transactions effected other than on an exchange. The data that members report has a direct impact on the accuracy of last-sale transaction information FINRA disseminates. Additionally, the incomplete or inaccurate reporting of required trade information may negatively impact FINRA's surveillance patterns. FINRA relies on the completeness and accuracy of trade reporting to reconstruct and review the activities of market participants in order to safeguard the integrity of the securities markets and protect investors. Complete and accurate reporting also enables member firms to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations.

² NMS stocks are defined in Rule 600(b)(65) of Regulation NMS under the Securities Exchange Act of 1934, and OTC equity securities are defined in FINRA Rule 6420.

³ A principal transaction is a transaction where a broker-dealer participates in a trade by buying or selling a security for its own account.

⁴ From January 2018 through May 2025, these transaction fees ranged from \$5.10 to \$27.80 per million dollars in covered sales. See <https://www.sec.gov/rules-regulations/fee-rate-advisories>.

When the transactions described herein resulted in a fractional share, Schwab routed the whole-share portion of the transaction to the market in an agency capacity and executed the fractional-share portion as principal.

From January 2018 to May 2025, Schwab failed to report to the TRF or ORF approximately 2.2 million fractional share transactions resulting from the firm liquidating, in a principal capacity, fractional shares in connection with customers' requested account transfers made through the Automated Customer Account Transfer Service (ACATS), which does not support transfers of fractional shares. Schwab also failed to pay the regulatory transaction fees associated with these trades. In May 2025, the firm began routing a substantial portion of its fractional share sell transactions, including those resulting from ACATS liquidations, to market centers, eliminating the firm's obligation to report these transactions.

Additionally, from May 2022 to November 2023, Schwab failed to transmit approximately 600,000 fractional share transactions in NMS securities to the TRF within ten seconds after execution, and from April 2023 through March 2024, the firm failed to transmit to the ORF approximately 900 fractional share transactions in OTC equity securities within ten seconds after execution. These late reports were primarily caused by latency in the firm's reporting system around the time of market open due to increased trading volumes and volatility, which the firm addressed in November 2023 by increasing the system's capacity.

By failing to report and failing to timely report fractional share trades, Schwab violated FINRA Rules 6380A, 6622, and 2010.

Schwab submitted approximately 690,000 inaccurate fractional share trade reports.

FINRA Rules 7230A(d)(4) and 7330(d)(4) require reporting member firms to report the time of execution for each transaction reported to the TRF or the ORF.

FINRA Rules 6380A(a)(5)(G) and 6622(a)(5)(G) require member firms to report a trade with a prior reference price modifier where "the transaction report reflects a price different from the current market when the execution price is based on a prior reference point in time." Further, these rules require member firms to include in the transaction report both the time of execution of the trade and the prior reference time. Appropriate use of the prior reference price modifier enables market participants to properly identify trades executed based on a prior reference price and distinguish them from late trade reports.

From July 2022 to July 2023, Schwab submitted to the TRF and the ORF approximately 690,000 trade reports with inaccurate execution times and omitted the required prior reference price modifier and corresponding prior reference time. This was an unintended result of a system enhancement that inadvertently caused the firm to report the prior reference time as the execution time. The firm corrected the issue in July 2023.

By submitting inaccurate trade reports to the TRF and the ORF, Schwab violated FINRA Rules 6380A, 6622, 7230A, 7330, and 2010.

Schwab failed to establish a supervisory system reasonably designed to achieve compliance with FINRA rules applicable to its fractional share trades.

FINRA Rule 3110(a) requires a member firm 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 a member firm to establish, maintain, and enforce written procedures 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(a) or (b) also constitutes a violation of FINRA Rule 2010.

From January 2018 through May 2025, Schwab's systems and procedures were not reasonably designed to address the firm's reporting obligations with regard to liquidations of fractional share positions resulting from ACATS transfers. While the firm had procedures covering other aspects of trade reporting, those procedures did not reasonably address the timeliness or accuracy of its reporting of these fractional share positions.

By failing to establish a supervisory system reasonably designed to achieve compliance with FINRA rules concerning fractional share trade reporting, Schwab violated FINRA Rules 3110(a) and (b) and 2010.

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

- a censure;
- a \$175,000 fine; and
- an undertaking to pay to FINRA regulatory transaction fees as required for unreported fractional share trades executed between January 1, 2018, and May 6, 2025, pursuant to Section 3 of Schedule A to FINRA's By-Laws.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. FINRA's Finance Department will contact Respondent regarding payment. 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 become 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.

08/24/26
Date

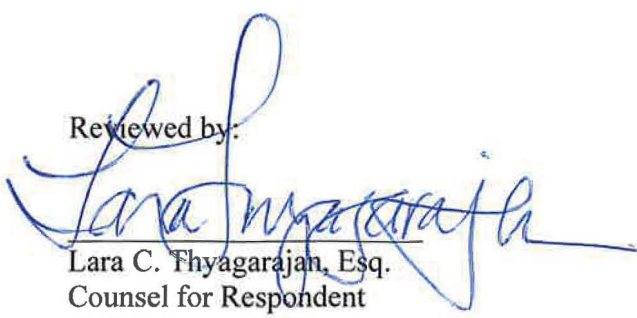


Charles Schwab & Co., Inc.
Respondent

Print Name: Jeffrey Starr

Title: Managing Director – Head of Operations

Reviewed by:



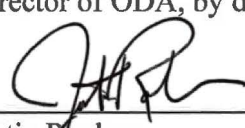
Lara C. Thyagarajan, Esq.
Counsel for Respondent
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019

Accepted by FINRA:

September 1, 2026

Date

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



Justin Roeber
Principal Counsel
FINRA
Department of Enforcement
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