

NASDAQ PHLX LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2022075164206

TO: Nasdaq PHLX LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

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

Pursuant to Rule 9216 of Nasdaq PHLX LLC (“Phlx”) Code of Procedure,¹ Interactive Brokers LLC (“Interactive” 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, Phlx will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. Respondent 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 Phlx, or to which Phlx 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 Phlx:

BACKGROUND

Interactive has been a FINRA member since January 6, 1995 and a Phlx member since February 14, 1995. The firm offers online trading through self-directed accounts and clears transactions for retail and institutional customers, as well as for customers introduced to it by approximately 400 foreign and domestic introducing firms. Interactive is headquartered in Greenwich, Connecticut, maintains approximately 20 branches, and employs approximately 400 registered representatives.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm does not have any relevant disciplinary history on Phlx. In October 2020, Interactive consented to a censure and a fine of \$237,500 to NYSE Arca in connection with its reporting of more than 525,000 options orders (comprised of approximately 2.1 million contracts) with the incorrect origin code of Customer instead of Professional

¹ Series 9000 of The Nasdaq Stock Market LLC Rules are incorporated by reference into Phlx Rule General 5, Section 3, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx’s jurisdiction.

Customer between January 2015 and November 2019 (NYSE Arca Matter No. 2020-06-00085).

SUMMARY

On behalf of Phlx and other exchanges, FINRA's Department of Market Regulation reviewed Interactive's compliance with rules governing the use of Professional Customer origin codes on options orders from October 2009 through August 7, 2022.² This review revealed that Interactive mismarked approximately 2.4 million transactions, totaling approximately 15.3 million contracts, which were erroneously executed as Customer instead of Professional Customer, of which approximately 3.2 million contracts traded on Phlx between April 1, 2010 and August 7, 2022 (the "review period"). As a result, Interactive violated Phlx Rules Options 6, Section 10, Options 6E, Sections 1 and 5, and General 9, Section 1(c)(1); their predecessors Phlx Rules 1053, 760, 785, and 707 and Options 9, Section 1;³ and Section 17(a)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 17a-3(a)(6) thereunder.

Also during the review period, Interactive's supervisory system was not reasonably designed to achieve compliance with the recordkeeping provisions of the federal securities laws and the rules of Phlx that govern the accuracy of options order origin codes, in violation of Phlx Rule General 9, Sections 1(c)(1) and 20(h) and their predecessors Phlx Rules 707 and 748(h) and Options 9, Section 1.⁴

FACTS AND VIOLATIVE CONDUCT

Inaccurate Origin Codes

1. Phlx rules require that, when accepting an order, a member must obtain and record an appropriate code to identify the origin of the order. During the review period, Phlx had multiple origin codes, including codes to indicate that an order originated from a Customer or Professional Customer. Origin codes are important because, among other things, they may determine an order's execution priority and are part of the audit trail data for every transaction.
2. Section 17(a)(1) of the Exchange Act, and Rule 17a-3(a)(6)(i) thereunder, require broker-dealers to create a memorandum of each order, and any other instruction, showing the terms and conditions of the order. Phlx Rule Options 6E, Section 1 and its predecessor, Phlx Rule 760, require members to make, keep current and preserve such

² FINRA initiated its review based upon a self-report by Interactive pursuant to FINRA Rule 4530.

³ Effective February 3, 2020, Phlx Rule Options 6, Section 10 superseded Phlx Rule 1053; Phlx Rule Options 6E, Section 1 superseded Phlx Rule 760; Phlx Rule Options 6E, Section 5 superseded Phlx Rule 785; and Phlx Rule Options 9, Section 1 superseded Phlx Rule 707. In addition, effective January 22, 2021, Phlx Rule General 9, Section 1(c)(1) superseded Phlx Rule Options 9, Section 1.

⁴ Effective February 3, 2020, Phlx Rule Options 9, Section 1 superseded Phlx Rule 707, and Phlx Rule General 9, Section 20(h) superseded Phlx Rule 748(h). In addition, effective January 22, 2021, Phlx Rule General 9, Section 1(c)(1) superseded Phlx Rule Options 9, Section 1.

books and records as prescribed by Phlx and by the Exchange Act and the rules and regulations thereunder.

3. Phlx Rule Options 6E, Section 5 and its predecessor, Phlx Rule 785, require member organizations to submit certain trade data elements, including any information Phlx prescribes, in an automated format.
4. Phlx Rule General 9, Section 1(c)(1) and its predecessors, Phlx Rule 707 and Phlx Rule Options 9, Section 1, prohibit a member organization from engaging in conduct inconsistent with just and equitable principles of trade.
5. Phlx Rule Options 6, Section 10 and its predecessor, Phlx Rule 1053, require each member organization which is a clearing member of the Options Clearing Corporation (“OCC”) to supply trade information to Phlx in a form prescribed by Phlx covering each Phlx options transaction for which the member organization is responsible.
6. During the review period, Interactive used an automated order counting algorithm to determine whether a customer’s account should be coded as Professional Customer. However, Interactive failed to include complex orders and certain cancel/replace orders in the order counting logic. As a result, Interactive failed to identify certain customer accounts that should have been designated Professional Customer and incorrectly marked orders for those accounts with an origin code of Customer. These orders were routed to and executed on 12 exchanges, resulting in the firm mismarking approximately 2.4 million transactions, totaling approximately 15.3 million contracts, which were erroneously executed as Customer instead of Professional Customer, of which approximately 3.2 million contracts traded on Phlx.
7. Instances in which the firm routed an order with an incorrect origin code potentially had adverse consequences, such as inadvertently impacting the priority of order execution, creating inaccurate records of purchases and sales, creating an inaccurate audit trail, reporting trades to OCC with inaccurate trade details, and impeding Phlx’s ability to surveil for and detect potential violations of its rules and the federal securities laws.
8. By marking orders with incorrect origin codes, Interactive violated Section 17(a)(1) of the Exchange Act and Rule 17a-3(a)(6) thereunder; Phlx Rules 1053, 760, 785, and 707 for conduct prior to February 3, 2020; Phlx Rules Options 6, Section 10 and Options 6E, Sections 1 and 5 for conduct on or after February 3, 2020; Phlx Rule Options 9, Section 1 for conduct from February 3, 2020, through January 21, 2021; and Phlx Rule General 9, Section 1(c)(1) for conduct on or after January 22, 2021.

Supervisory Violations

9. Phlx Rule General 9, Section 20(h) and its predecessor, Phlx Rule 748(h), require member organizations to establish, maintain, and enforce written supervisory procedures, and system for applying such procedures, that are reasonably designed to prevent and

detect, insofar as practicable, violations of the applicable securities laws and regulations, including the Phlx's By-Laws and Rules.

10. During the review period, Interactive failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with origin code requirements. Interactive had written supervisory procedures addressing Professional Customer order capacity marking requirements, and it tested and reviewed certain automated reports designed to identify customers that should be classified as Professional Customers based on their U.S. option order activity levels. However, when the relevant logic to count customer orders for purposes of Professional Customer designations was released in 2009 and updated in 2012, Interactive did not test the logic for inclusion of complex orders and certain cancel/replace orders, nor did the firm test the order counting logic for the inclusion of such orders until early 2022. In addition, the firm failed to respond to several communications from firm personnel that could have alerted the firm to certain mismarked orders.
11. By failing to establish, maintain, and enforce a supervisory system that was reasonably designed to achieve compliance with the recordkeeping provisions of the federal securities laws and the rules of Phlx that govern the accuracy of options order origin codes, Interactive violated Phlx Rules 707 and 748(h) for conduct prior to February 3, 2020; Phlx Rules Options 9, Section 1 and General 9, Section 20(h) for conduct from February 3, 2020, through January 21, 2021; and Phlx Rule General 9, Sections 1(c)(1) and 20(h) for conduct on or after January 22, 2021.

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

1. a censure; and
2. a fine of \$7,750,000, of which \$1,628,204 shall be payable to Phlx.⁵

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. The firm has submitted a Payment Information 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.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

⁵ The remainder will be paid to BOX Exchange LLC, MIAX Emerald, LLC, Miami International Securities Exchange, LLC, MIAX PEARL, LLC, Nasdaq BX, Inc., Nasdaq ISE, LLC, Nasdaq GEMX, LLC, Nasdaq MRX, LLC, Nasdaq Options Market LLC, NYSE American LLC, and NYSE Arca, Inc. for similar violations.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal 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 Exchange Review Council 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 pre-judgment of the Chief Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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 Rule 9143 or the separation of functions prohibitions of 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 FINRA's Department of Enforcement and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Phlx 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 Phlx or any other regulator against the firm;
2. Phlx may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Phlx Rule 8310 and IM-8310-3;⁶ and
3. 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 Phlx, or to which Phlx is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which Phlx is not a party.

D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 Phlx, nor does it reflect the views of Phlx or its staff.

⁶ Series 8000 of the Nasdaq Rules are incorporated by reference into Phlx Rule General 5, Section 2, and are thus Phlx Rules and thereby applicable to Phlx members, member organizations, persons associated with member organizations, and other persons subject to Phlx's jurisdiction.

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 the firm 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.

September 15, 2025
Date

Interactive Brokers LLC
Respondent
By: Elaine Mandelbaum
Elaine Mandelbaum, General Counsel

Reviewed by:

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

Accepted by Phlx:

September 30, 2025
Date

Nicole Waksmundzki
Nicole Waksmundzki
Principal Counsel
Department of Enforcement

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

STATEMENT OF CORRECTIVE ACTION BY INTERACTIVE BROKERS LLC

This Corrective Action Statement is submitted by Interactive Brokers LLC (“IBKR” or the “Firm”). It does not constitute factual or legal findings by Nasdaq Phlx LLC (“Phlx” or the “Exchange”), nor does it reflect the views of Phlx or Phlx staff.

IBKR submits this Statement of Corrective Action in connection with the foregoing Letter of Acceptance, Waiver, and Consent (“AWC”). As set forth in detail below, IBKR acted promptly to address the issues set forth in the AWC and invested substantial resources in investigating and remediating the items identified in this matter, including but not limited to via significant enhancements to the Firm’s policies and procedures and preparation of a complex lookback analysis.

IB’s Response to the Conduct at Issue: Once IBKR became aware of the inadvertent exclusion of complex orders from order counting for purposes of Professional customer designations, IBKR promptly investigated and, through its own thorough investigation, identified the similar inadvertent exclusion of certain cancel-replace orders. IBKR self-reported both items to the Financial Industry Regulatory Authority (“FINRA”) on June 1, 2022 and completed its remediation with respect to complex orders within days of the June 2022 self-report, and with respect to the cancel/replace orders by early August 2022.

Updated Policies and Procedures: The Firm has made significant changes to its code development and release processes since the coding for purposes of determining Professional customer designations was originally released in 2009 to, among other things, catch issues like those described in the AWC before newly developed code is released.