

**INTERNATIONAL SECURITIES EXCHANGE, LLC  
NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Interactive Brokers LLC  
Mr. Scott M. Litvinoff  
Associate General Counsel  
One Pickwick Plaza – 2<sup>nd</sup> Floor  
Greenwich, CT 06830**

**FROM: International Securities Exchange, LLC (“ISE”)  
c/o Financial Industry Regulatory Authority (“FINRA”)  
Department of Market Regulation  
9509 Key West Avenue  
Rockville, MD 20850**

**DATE: August 23, 2016**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20140402502**

**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **August 18, 2016** by the ISE’s Business Conduct Committee. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by NASDAQ’s Finance Department regarding the payment of any fine if a fine has been imposed.

Interactive Brokers LLC  
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If you have any questions concerning this matter, please contact Elyse D. Kovar, Senior Counsel,  
at (646) 430-7050.



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Eric S. Brown  
Chief Counsel, Legal Section  
Department of Market Regulation

Signed on behalf of NASDAQ and ISE

Enclosure

FINRA District 11 – Boston  
Michael Solomon  
Senior Vice President and Regional Director  
(Via email)

International Securities Exchange, LLC  
Attn: John Zecca, Chief Regulatory Officer  
60 Broad Street, 26th Floor  
New York, NY 10004

Re: LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
ISE File No. 2013-191-IAB  
Interactive Brokers LLC (CRD No. 36418)

Chief Regulatory Officer and Business Conduct Committee Members:

Pursuant to ISE Rule 1603, Interactive Brokers LLC ("IBKR" or the "firm") submits this Letter of Acceptance, Waiver, and Consent ("AWC") to the International Securities Exchange, LLC ("ISE" or "Exchange") to propose a settlement of the alleged rule violations described in Section II below. This AWC is submitted to resolve this proceeding and on the condition that, if accepted, ISE will not bring any future actions against IBKR based on the same alleged violations.

IBKR understands that signing this AWC is a voluntary action on its part and that the AWC will not resolve this matter unless and until it has been reviewed and accepted by both the Chief Regulatory Officer ("CRO") and then the Business Conduct Committee ("BCC"), who must decide if it is appropriate in view of the facts and allegations involved. IBKR also understands that if either the CRO or the BCC decides to decline this AWC, it will not be used against IBKR to prove that any violations occurred.

IBKR understands that if this AWC is accepted by both the CRO and the BCC, it will become a part of its permanent disciplinary records and may be considered in any future actions brought by the ISE. IBKR also understands that its experience in the securities industry and any disciplinary history may be factors which the CRO and BCC will consider in deciding whether to accept this AWC. That experience and disciplinary history includes the following:

- IBKR has been a member of ISE since May 1, 2000, and its registration remains in effect. At all relevant times, IBKR was approved to perform in the capacity of a Primary Market Maker.
- IBKR has no relevant disciplinary history at the ISE. IBKR was, however, disciplined by BATS Exchange, Inc. ("BATS") for Large Options Positions Report ("LOPR") violations pursuant to an AWC dated May 21, 2012, wherein BATS imposed a censure, a \$165,000 fine, and an undertaking for IBKR to revise its LOPR written supervisory procedures ("WSPs"). Between January 2010 and March 2011, IBKR: (i) failed to report 85,798 positions to the LOPR with the correct Effective Date; (ii) failed to report 8,788 positions to the LOPR; (iii) failed to delete 26 positions from the LOPR; (iv) failed to report an unspecified amount of reportable positions received from external transfers to the LOPR; (v) over-reported/misreported to the LOPR equity hedge records for trading in one security and for three different accounts on 25 trading days; (vi) committed position limit and in-concert reporting violations; and (vii) had inadequate supervision.

## I. Waiver of Procedural Rights

IBKR is advised of, and specifically and voluntarily waives, the following rights which are granted by the ISE's disciplinary rules:

1. to have a Statement of Charges filed identifying the violations alleged in this matter;
2. to be notified of the Statement of Charges and have the opportunity to answer the allegations in writing;
3. to defend against the allegations in a hearing before a Panel consisting of a professional hearing officer and two members of the BCC and to be represented by an attorney at the hearing;
4. to have a written record of the hearing made and a written decision issued by the Panel; and
5. to appeal any such decision to the ISE's Board of Directors, then to the U.S. Securities and Exchange Commission and to a U.S. Court of Appeals.

IBKR further waives any provision of the ISE's disciplinary and other rules that may be interpreted as prohibiting any ISE staff member from advising the CRO and BCC in their decision as to whether to accept this AWC.

## II. Acceptance and Consent

### Overview

In ISE Investigation No. 2013-191-IAB, on behalf of the Exchange, FINRA's Department of Market Regulation's Options Regulation staff (the "Staff") conducted a review of the firm's options positions required to be reported in the LOPR during the period between May 22, 2012 and June 6, 2014 (the "review period") for compliance with ISE rules relating to the reporting of options positions.

ISE Rule 415(a) provides: "Each Member shall file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on the Exchange. The report shall indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered."

LOPR data is used extensively by ISE and self-regulatory organizations ("SROs") to identify holders of large option positions who may be, among other things, attempting to manipulate the market or otherwise violate securities rules and regulations. The accuracy of LOPR data is essential for the analysis of potential violations related to,

among other things, insider trading, position limits, exercise limits, front-running, capping and pegging, mini-manipulation, and marking-the-close.

As a result of Staff's review, it was determined that during the review period, IBKR violated ISE Rule 415(a).

IBKR hereby accepts and consents, without admitting or denying the allegations, to the entry of findings by the ISE of the following acts and violations:

1. During the review period, due to a logic issue in its legacy LOPR system, in over 225,000 instances,<sup>1</sup> IBKR failed to report positions with respect to accounts acting-in-concert ("AIC") with others that together had established an aggregate position of 200 or more option contracts on the same side of the market covering the same underlying security.
2. During the review period, due to a logic issue in its legacy LOPR system, in approximately 88,000 instances, IBKR reported to the LOPR system in-concert positions, but failed to identify them as AIC.
3. During the review period, due to a logic issue in its legacy LOPR system, IBKR prematurely deleted approximately 19,000 options positions from the LOPR before expiration.
4. During the review period, due to a logic issue in its legacy LOPR system, IBKR reported an unknown number of short positions as uncovered when the positions had actually been covered.
5. The conduct described in paragraphs one through four violated ISE Rule 415.

IBKR hereby consents to the ISE imposing on it, at a maximum, the following sanction:

**A censure and a fine in the amount of \$300,000.**

### III. Corrective Action and Other Matters

1. If this AWC is accepted by the BCC, ISE will take no further action against IBKR respecting the matters that are the subject of this AWC. If this AWC is rejected by the BCC, the matter shall proceed as though the letter had not been submitted. The BCC's decision to accept or reject this AWC shall be final, and IBKR may not seek review thereof.
2. IBKR may attach to this AWC any statement it wishes to have the CRO and BCC consider in deciding whether to accept it, although it may not deny the existence of the violations or make any other statements inconsistent with the AWC.

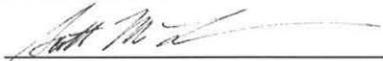
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<sup>1</sup> An "instance" is a single failure to report, or inaccurately report, a given options position. The number of instances is determined by multiplying a given reportable position by the number of trade dates the position had been reported inaccurately.

3. IBKR agrees to pay the monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payment is due and payable, and has attached the election form showing the method by which it proposes to pay any fine imposed.
4. IBKR understands that ISE will make such public announcement concerning this agreement and the subject matter thereof as ISE may deem appropriate.

IBKR certifies that it has read and understands all of the provisions of this AWC and has been given full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind has been made to induce IBKR to submit it.

Interactive Brokers LLC

By: 

Name: Scott M. Litvinoff

Title: Associate General Counsel

Date: July 11, 2016

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**THIS SECTION RESERVED FOR EXCHANGE USE ONLY**

Decision of the ISE Chief Regulatory Officer:

Accept     Decline

Date

8-18-16

  
\_\_\_\_\_  
John Zecca  
Chief Regulatory Officer

Decision of the ISE Business Conduct Committee:

Accept     Decline

Date

8-18-16

  
\_\_\_\_\_  
By John Zecca  
For the Business Conduct Committee

**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**ISE Investigation No. 2013-191-IAB**

**Schedule A**  
**Election of Payment Method**

Interactive Brokers LLC proposes to pay the fine as described in Part II, *Acceptance and Consent*, of the AWC by:

- Automatic Deduction from the Firm's Options Clearing Corporation account;
- A firm check or bank check for the full amount;
- Wire transfer;
- The installment payment plan<sup>2</sup> (if agreed between IBKR and the Exchange staff, and approved by the BCC).

If the firm proposes to pay the fine by a firm check or a bank check for the full amount, or by wire transfer for the full amount, the Exchange must receive payment of the fine within 30 days of the AWC becoming final.

If the Exchange does not receive the firm check or a bank check for the full amount, or by wire transfer for the full amount, within 30 days of the AWC becoming final, the Exchange will deduct the fine from the firm's OCC account.

The Exchange will notify the firm by separate letter when the AWC is accepted and becomes final.

Respectfully submitted,

Interactive Brokers LLC

By: 

Name: Scott M. Litvinoff

Title: Associate General Counsel

Date: July 11, 2016

<sup>2</sup> The installment payment plan is only available for a fine of \$50,000 or more. Certain interest payments, minimum monthly payments and other requirements may apply. The Firm should discuss this fully with counsel before requesting this method of payment.