UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 89510 / August 10, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-19907

In the Matter of **INTERACTIVE BROKERS LLC** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Interactive Brokers LLC ("IB").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

SUMMARY

This matter concerns registered broker-dealer IB's failure to file suspicious activity reports ("SARs") as required by Section 17(a) of the Exchange Act and Rule 17a-8 thereunder. A registered broker-dealer is required to file a SAR when it knows, suspects, or has reason to suspect that certain transactions (1) involve funds derived from illegal activity, (2) involve the use of the broker-dealer to facilitate criminal activity, (3) are designed to evade any requirement of the Bank Secrecy Act ("BSA"), or (4) have no business or apparent lawful purpose. From at least July 1, 2016 to June 30, 2017 (the "relevant period"), IB failed to file SARs relating to suspicious activity involving certain U.S. microcap securities[2] transactions it executed on behalf of its customers.

During the relevant period, IB ignored or failed to recognize numerous red flags, failed to properly investigate certain conduct as required by its written supervisory procedures, and ultimately failed to file SARs on suspicious activity. In a number of instances, IB's customers deposited a large block of U.S. microcap securities, sold the securities into the market, and shortly thereafter withdrew the proceeds of these sales from its accounts. In other instances, the sales by IB's customer accounted for a significant portion of the daily trading volume in certain U.S. microcap securities issuers. In addition, IB failed to review at least 14 deposits of U.S. microcap securities where the security had been the subject of a Commission trading suspension. In connection with this activity, IB failed to identify red flags and, therefore, did not report this activity via SARs. In those few instances where IB personnel identified red flags concerning U.S. microcap securities trading activity during the relevant period, IB failed to file a SAR where one should have been filed. These failures were the result of IB's failure to implement a reasonable surveillance program despite the significant size of IB's U.S. microcap securities business.

RESPONDENT

IB is a registered broker-dealer headquartered in Greenwich, Connecticut. IB has been registered with the Commission since 1994. IB is a retail and clearing broker-dealer that, among other businesses, services customers who engage in trading U.S. microcap securities in the over-the-counter market. IBG LLC owns 99.9% of IB. IBG LLC's ultimate parents are IBG Holdings

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1 The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

2 The term microcap securities applies to companies with low or "micro" capitalizations, meaning the total value of the company's stock. The securities at issue here are those microcap securities that trade for under five dollars per share. *See* Microcap Stock: A Guide For Investors (Sept. 18, 2013), https://www.sec.gov/reportspubs/investor-publications/investorpubsmicrocapstockhtm.html; Exchange Act Section 3(a)(51) and Rule 3a51-1 thereunder.

LLC (81.6%) and Interactive Brokers Group Inc. (18.5%), a public company whose shares are listed on NASDAQ under the symbol IBKR.

FACTS

Background

1. IB is an online, internet-based broker-dealer whose customers self-direct their own trading. Customer orders are handled on an agency basis. IB does not conduct proprietary trading. The primary revenue components for the firm are commissions from transactions in equities, options, and commodities, along with margin interest and securities lending.

2. During the relevant period, IB handled approximately 650,000 transactions per day and was involved in a significant portion of the U.S. microcap securities market. In 2017, IB ranked fifth among all broker-dealers for depositing securities valued at under $1 at The Depository Trust & Clearing Corporation. Similarly, for 2017, IB ranked fourth overall for the receipt of deposits of securities valued at under $0.01.

3. During the relevant period, IB accepted deposits of U.S. microcap securities involving approximately 3,800 issuers. Notably, a large portion of IB's U.S. microcap securities business involved a small number of IB's customers. For example, IB had ten customers whose total net sales amounted to over 4.7 billion shares of U.S. microcap securities, with proceeds amounting to approximately $27.6 million. In addition, the top 20 customers who deposited U.S. microcap securities at IB, by volume, had deposited approximately 12.1 billion shares, or 60% of all of the incoming deposits of low priced stock.

4. Nonetheless, IB did not have in place an adequate anti-money laundering ("AML") surveillance program that reasonably could be expected to detect suspicious transactions in U.S. microcap securities transactions.

IB's AML Policies and Procedures

5. As part of its compliance efforts, IB adopted written supervisory procedures ("IB's Policies") concerning its AML Compliance Program. IB's policies stated that IB personnel were trained to monitor for and where appropriate, report, certain "red flags" that may indicate money laundering or terrorist financing activities.

6. IB's AML policies and procedures were not reasonably tailored to the risks of IB's U.S. microcap securities business. Only one of the red flags in IB's procedures explicitly concerned U.S. microcap securities, stating that IB compliance personnel should flag a customer, who, for no apparent reason, or in conjunction with other "red flags," engaged in transactions involving certain types of securities, such as U.S. microcap securities. There was no further description or discussion about U.S. microcap securities in the AML guidance given to IB compliance personnel. Further, none of the red flags related to large volume deposits of U.S. microcap securities.

7. Although IB had in place surveillance systems intended to monitor incoming stock transfers, trading activity and monetary transactions in order to identify certain AML red flags,

these surveillance systems were not designed to identify many of the suspicious U.S. microcap securities transactions detailed herein despite the risks presented by such transactions.

8. Further, IB did not have sufficient resources in its compliance function to adequately review and/or address the issues identified by its surveillance systems. For example, during the relevant period, a single employee was responsible for reviewing all of the hits on the incoming stock transfer report, which included over 3,000 incoming transfers of U.S. microcap securities.

9. IB did not systematically identify or review issues flagged by outside sources such as through regulatory inquiries or trading suspension alerts. IB also did not maintain a reasonable system for recording the review and disposition of suspicious activity issues identified by the firm's compliance personnel. These failures undermined IB's ability to fulfill its responsibilities to review suspicious transactions in U.S. microcap securities.

IB's Failure to File SARs

10. During the relevant period, IB failed to investigate the following red flags of potentially suspicious conduct and, ultimately failed to file SARs on these suspicious transactions:

- The deposit, sale and withdrawal of funds in a short time period ("DSW activity");
- Customer accounts whose trading represented a substantial percentage of the daily trading volume in a particular security; and
- Trading in the securities of issuers subject to regulatory trading suspensions.

In addition, there were several instances during the relevant period where IB identified red flags but did not conduct a reasonable investigation or file a SAR where a SAR should have been filed.

11. For example, IB failed to detect DSW activity in connection with certain U.S. microcap securities transactions. DSW activity may be indicative of potentially unregistered offerings, pumps and dumps, or other manipulative activity.

12. On at least 78 occasions during the relevant period, IB failed to investigate or file a SAR in connection with transactions involving suspicious DSW activity. In these 78 instances, IB customers deposited shares of U.S. microcap securities into their IB accounts with a total value of at least $100,000, sold the shares and the proceeds of the sales totaled at least $100,000, and the same account wired out at least $100,000, all within 30 calendar days. The 78 DSW instances also represented approximately 2.14 billion shares, of which approximately 2.07 billion were sold within 30 days.

13. Despite the fact that these 2.14 billion shares represented approximately 10.5% of all deposit activity of U.S. microcap securities at IB during the relevant period, IB failed to adequately monitor them for suspicious activity and did not file any SARs with respect to any of this activity.

14. In addition to the red flags presented by the DSW activity, IB also ignored or failed to recognize numerous other red flags indicative of potentially unregistered offerings, pumps and dumps, or other manipulative activity, and failed to file SARs on this activity.

15. For example, during the relevant period, for a sample of 309 issuers, there were 58 instances where a customer's sales represented at least 90% of the daily trading volume and 126 instances where a customer's sales represented at least 70% of the daily trading volume. IB did not file any SARs with respect to these transactions.

16. In another example, IB permitted the deposit of at least 14 securities where the securities at issue had been the subject of trading suspensions issued by the Commission and did not investigate whether the deposits required the filing of a SAR. IB did not file any SARs with respect to these transactions.

17. Finally, on at least three occasions during the relevant period, IB failed to file a timely SAR in connection with suspicious transactions where IB had identified red flags, including that the relevant customers had previously violated securities or other criminal laws. In each of these three instances, IB restricted the customer accounts from trading in U.S. microcap securities after a suspicious transaction, but IB did not timely file SARs relating to the underlying transactions.

IB's Remediation

18. In determining to accept the Offer, the Commission considered remedial acts undertaken by IB. For example, IB engaged outside consultants to review its AML program, including its policies and procedures. IB instituted a remediation plan to address the weaknesses identified by regulators and outside consultants. Further, IB changed its U.S. microcap securities related policies in an effort to prevent the use of its platform for potentially violative conduct. In addition, IB increased its legal and compliance staffing responsible for AML compliance by many dozens, including making changes in management overseeing those functions. IB developed a new case management system for AML surveillance that incorporates recommendations of its outside consultants and regulators. Finally, IB engaged an outside consultant to conduct the annual independent audit of its AML program.

VIOLATIONS

19. The BSA, and implementing regulations promulgated by Financial Crimes Enforcement Network ("FinCEN"), require that broker-dealers file SARs with FinCEN to report a transaction (or a pattern of transactions of which the transaction is a part) conducted or attempted by, at, or through the broker-dealer involving or aggregating to at least $5,000 that the broker-dealer knows, suspects, or has reason to suspect: (1) involves funds derived from illegal activity or is conducted to disguise funds derived from illegal activities; (2) is designed to evade any requirement of the BSA; (3) has no business or apparent lawful purpose and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts; or (4) involves use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 1023.320(a)(2) ("SAR Rule").

20. Exchange Act Rule 17a-8 requires broker-dealers registered with the Commission to comply with the reporting, record-keeping, and record retention requirements of the BSA. The failure to file a SAR as required by the SAR Rule is a violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

21. As a result of the activity described in Section III above, IB willfully[3] violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent ceases and desists from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 promulgated thereunder.

B. Respondent is censured.

C. Respondent shall pay civil penalties of $11,500,000, to the Securities and Exchange Commission within thirty (30) days of the entry of this Order for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3).

D. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

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[3] Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act, "'means no more than that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lara Shalov Mehraban, Associate Director, Division of Enforcement, Securities and Exchange Commission, New York Regional Office 200 Vesey Street, Suite 400, New York, New York 10281.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary