



News Release

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FINRA Fines Interactive Brokers \$5.5 Million for Regulation SHO Violations and Supervisory Failures

WASHINGTON – FINRA announced today that it has fined Interactive Brokers LLC (Interactive) \$5.5 million for Regulation SHO violations and supervisory failures spanning a period of at least three years.

To limit ongoing naked short positions, firms are required by the SEC's Reg SHO, after completion of a short sale transaction, to deliver the shares on settlement date or take affirmative action to close out the "failure to deliver" shares by purchasing or borrowing the securities. If the failure to deliver is not closed out, the firm may not accept additional short sale orders in the security without first borrowing or arranging to borrow the security. Regulation SHO also prohibits the execution or display of short sale in a "covered security" at a price that is less than or equal to the current national best bid when the price of the security has fallen by 10 percent or more in one day.

FINRA found that from July 2012 through June 2015, Interactive's supervisory system, including its written supervisory procedures, was not reasonably designed to achieve compliance with the requirements of Regulation SHO. Also, Interactive repeatedly ignored "red flags," including internal audit findings, multiple internal warnings from its clearing and compliance personnel, its own annual risk assessments, and FINRA exam findings, indicating that its Regulation SHO supervisory systems and procedures were unreasonable. Although Interactive was aware of these supervisory deficiencies, it did not implement remedial measures until mid-2015. As a result, Interactive did not timely close-out more than 2,300 fails-to-deliver, and accepted and executed short orders in those securities without first borrowing (or arranging to borrow) the security approximately 28,000 times. Interactive also permitted the execution or display of more than 4,700 short sale orders in covered securities at a price less than or equal to the current national best bid.

Susan Schroeder, FINRA Executive Vice President, Department of Enforcement, said, "Firms that are aware of deficiencies in their supervisory systems must promptly remediate them. In this case, the firm internally identified the problems, yet did not revise its supervisory systems for more than three years, creating the potential for negative impact to the markets and investor harm."

In settling this matter, Interactive neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry – brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and

federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.finra.org.

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