

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the  
Continued Membership  
of  
Alpaca Securities LLC,  
(CRD No. 288202)

Notice Pursuant to  
Rule 19h-1  
Securities Exchange Act  
of 1934

SD-2436

**March 6, 2025**

**I. Introduction**

On October 15, 2024, Alpaca Securities LLC (“Alpaca” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.<sup>1</sup> The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

**II. The Statutorily Disqualifying Event**

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Sections 15(b)(4)(D) and (E), as a result of a September 2024 order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding that Alpaca willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) and failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees’ aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder (“SEC Order”).<sup>2</sup>

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<sup>1</sup> See MC-400A and related attachments compiled by CRED, with a cover memorandum dated October 22, 2024, attached as Exhibit 1.

<sup>2</sup> See SEC Order, *In re Alpaca Securities LLC*, Exchange Act Release No. 101137 (Sept. 24, 2024), attached as Exhibit 2.

The SEC Order also triggered disqualification under Rules 262(b)(2), 506(d)(2)(ii), and 602(e) of the Securities Act of 1933 and Rule 503(b)(2) of Regulation Crowdfunding. On September 24, 2024, the SEC granted a waiver from the application of the disqualification provisions of these Rules. See *In re Off-Channel Communications at Registered Entities*, Securities Act Release No. 11308 (Sept. 24, 2024), attached as

According to the SEC Order, from at least May 2022, Alpaca employees sent and received off-channel communications that related to the Firm's business, and a majority of these written communications were not maintained or preserved by the Firm.<sup>3</sup> Further, supervisors who were responsible for preventing this misconduct among junior employees routinely communicated off-channel using their personal devices, and, in so doing, failed to comply with Firm policies by communicating using non-Firm approved methods on their personal devices about the Firm's broker-dealer business.<sup>4</sup>

The Firm was censured, ordered to cease and desist from committing or causing any future violations, ordered to pay a civil money penalty of \$400,000, and ordered to comply with certain undertakings.<sup>5</sup> The Firm represented that it paid the penalty and is in compliance with the undertakings.<sup>6</sup>

### **III. Remedial Measures**

According to the SEC Order, Alpaca undertook significant remedial measures prior to the issuance of the order.<sup>7</sup> Specifically, Alpaca enhanced its policies and procedures, increased training concerning the use of approved communications methods including on personal devices, and began implementing significant changes to the technology available to personnel, which included providing personnel with a messaging application that retains communications, thereby making approved channels more readily available.<sup>8</sup> The Commission also considered the Firm's prompt remedial actions and cooperation with the SEC when determining to accept the Offer of Settlement.<sup>9</sup>

### **IV. Firm Background**

The Firm has been a FINRA member since March 26, 2018.<sup>10</sup> It is headquartered in New York, New York with six branches (one of which is an Office of Supervisory

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Exhibit 3.

<sup>3</sup> See Exhibit 2 at p. 2, para. 3.

<sup>4</sup> *Id.* at p. 2, para. 4.

<sup>5</sup> *Id.* at pp. 5-9.

<sup>6</sup> See Exhibit 1 at FINRA pp. 3, 17-19. See also Alpaca Discovery Responses dated February 18, 2025, attached as Exhibit 4.

<sup>7</sup> See Exhibit 2 at p. 5, para. 28.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> See Central Registration Depository ("CRD") Excerpt – Organization Registration Status, attached as Exhibit 5.

Jurisdiction).<sup>11</sup> The Firm employs approximately 36 of registered representatives (23 of which are registered principals), one operations professional, and 11 non-registered fingerprint employees.<sup>12</sup> Alpaca does not employ any statutorily disqualified individuals.<sup>13</sup>

Alpaca is approved to engage in the following lines of business: broker or dealer retailing corporate equity securities over the counter; broker or dealer selling corporate debt securities; mutual fund retailer; U.S. government securities broker; municipal securities broker; put and call broker or dealer or option writer; non-exchange member arranging for transactions in listed securities by exchange member; trading securities for own account; and engages in other securities business<sup>14</sup> including other-securities clearance and settlement (includes self-clearing, correspondent, and omnibus clearing activities), offering or engaging in on-line trading/electronic trading, facilitation of fractional shares trading on a principal basis, and securities lending.<sup>15</sup>

The Firm is a member of the following self-regulatory organizations (“SROs”): The Depository Trust Company (“DTC”); and National Securities Clearing Corporation (“NSCC”).<sup>16</sup>

### **Recent Examinations**

In the past two years, Alpaca has been the subject of one FINRA routine examination that resulted in a Cautionary Action Letter (“CAL”), and one SEC examination that resulted in a deficiency letter.

#### **A. FINRA Routine Examination**

In April 2023, FINRA issued a CAL to the Firm based on 13 exceptions, and one additional exception was referred to FINRA’s Department of Enforcement (“Enforcement”) for further review and disposition.<sup>17</sup> The 13 exceptions that were the subject of the CAL pertained to the Firm’s maintenance of bank accounts that were not properly titled for the benefit of customers and did not have related Notification Letters signed by authorized

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<sup>11</sup> FINRA confirmed this through analysis of the Firm’s information contained in CRD, last performed on February 24, 2025.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *See* CRD Excerpts – Types of Business and Other Business Descriptions, collectively attached as Exhibit 6.

<sup>15</sup> *Id.* at FINRA p. 2.

<sup>16</sup> Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on February 24, 2025.

<sup>17</sup> *See* Disposition Letter for Examination No. 20220733200 dated April 18, 2023, Examination Report dated December 21, 2022, and Firm Response dated January 20, 2023, collectively attached as Exhibit 7.

bank users.<sup>18</sup> In addition, the Firm failed to timely report complaints.<sup>19</sup> The Firm also accepted impermissibly priced orders and modifications that were reported to CAT.<sup>20</sup> Additionally, Alpaca failed to disclose specific details of its Payment for Order Flow (“PFOF”) arrangements in its Rule 606(a)(1) report, failed to notify customers that the report would be furnished to them upon request, and failed to include the Rule 606(b)(1) disclosure in its annual notice to clients.<sup>21</sup> Alpaca also incorrectly reported Not Held (“NH”) handling instructions to CAT for a held order, and failed to provide accurate time stamp reporting to CAT for new order events.<sup>22</sup> The Firm also failed to maintain adequate written supervisory procedures (“WSPs”) governing clock synchronization, routine testing of the Firm’s trading/order management systems, or those concerning the Firm’s procedures governing supervisory review for accuracy and completeness of quarterly reporting.<sup>23</sup> The Firm responded to the exceptions in writing, indicating that it remediated the exceptions related to its bank accounts and disclosures, implemented enhancements to its IT systems, instituted quarterly IT systems testing, and updated its WSPs to address the identified exceptions.<sup>24</sup> The exception referred to Enforcement pertains to the Firm’s inaccurate computations of withdrawals for the Firm’s 15c3-3 reserve bank account.<sup>25</sup>

## B. SEC Examination

In October 2023, the SEC concluded an examination of the Firm that identified eight deficiencies, including the Firm’s failure to maintain policies and procedures reasonably designed to safeguard customer records and information, enforce its existing policies and procedures to limit access to confidential data in violation of the Safeguards Rule, enforce its Acceptable Use Policy concerning messaging services, periodically inspect its non-branch locations, make inaccurate Form BD and U4 filings, adequately conduct and document its periodic risk assessments for covered accounts, and develop and implement a written Identity Theft Prevention Program.<sup>26</sup> The Firm responded in writing that it would implement enhanced IT systems, update its existing policy and procedures related to safeguarding customer records/information, update its WSPs to properly describe the

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<sup>18</sup> *Id.* at FINRA pp. 5-6.

<sup>19</sup> *Id.* at FINRA p. 6.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* at FINRA p. 7.

<sup>22</sup> *Id.* at FINRA pp. 7-8.

<sup>23</sup> *Id.* at FINRA pp. 8-10.

<sup>24</sup> *Id.* at FINRA pp. 12-18.

<sup>25</sup> *Id.* at FINRA p. 5. The exception referred to Enforcement remains open under matter number 20210719297.

<sup>26</sup> *See* SEC Examination Letter, SEC File No. 8-69928 dated October 25, 2023, and Firm Response dated November 28, 2023, collectively attached as Exhibit 8.

applicability of Reg S-ID, and memorialize the existing processes in place concerning identity theft, and offer additional trainings concerning the systems, WSPs, and policy updates.<sup>27</sup>

### **Regulatory Actions**

In the past two years, Alpaca has not been a subject of any recent disciplinary action besides the SEC Order that led to the Application.

#### **V. Prior SEA Rule 19h-1 Notices**

Alpaca has not been subject to any prior SEA Rule 19h-1 or 19d-1 Notices.

#### **VI. The Firm's Proposed Continued Membership with FINRA and Plan of Heightened Supervision**

The Firm seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision ("Supervision Plan" or "Plan") as a condition of its continued membership with FINRA.<sup>28</sup>

Alpaca Securities LLC (the "Firm") is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934, which incorporates by reference Sections 15(b)(4)(D) & (E), as a result of an order issued by the U.S. Securities and Exchange Commission ("SEC" or "Commission") dated September 24, 2024, which found that the Firm willfully violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder ("SEC Order"). The SEC Order also found that the Firm failed reasonably to supervise its employees within the meaning of Section 15(b)(4)(E).

For the purpose of this Supervision Plan, the term "Digital Communication Channels" means all written electronic methods of communication used to conduct Firm business, including but not limited to, text messaging platforms, whether via SMS messaging, iMessage, or other messaging services such as WhatsApp; direct messaging platforms including X f/k/a "Twitter," Instagram, LinkedIn, Slack, or Bloomberg Messaging; non-firm domain email accounts; and any other written electronic business-related correspondence. "Digital Communication Channels" encompass platforms used to exchange messages with internal or external stakeholders using either a personal or Firm-provided device.

For the purpose of this Supervision Plan, the term "Off-Channel Communications" means all business-related written electronic messages sent on Digital Communication Channels that are not captured by Firm surveillance and record-keeping systems.

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<sup>27</sup> *Id.* at FINRA pp. 12-22.

<sup>28</sup> *See* Executed Consent to Plan of Heightened Supervision dated January 10, 2025, attached as Exhibit 9.

In consenting to this Supervision Plan, the Firm agrees to the following:

1. The Firm shall comply with all of the undertakings outlined in the SEC Order.
2. The Firm shall maintain copies of all correspondence between the Firm and Commission staff relating to the SEC Order, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. The Firm shall maintain copies of all such correspondence in a readily accessible place for ease of review by FINRA staff.
3. The Firm shall provide FINRA's Statutory Disqualification Group with copies of all certifications submitted to the SEC upon completion of the undertakings as specified in the SEC Order. The Firm shall maintain copies of all certifications in a readily accessible place for ease of review by FINRA staff.
4. The Firm shall maintain copies of all reports and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. The Firm shall maintain copies of such documentation in a readily accessible place for ease of review by FINRA staff.
5. Within six months of the SEC's Letter of Acknowledgement ("LOA") in this matter, to the extent that it has not already done so within the past six months, and on at least an annual basis thereafter, for a term of six years from the date of the LOA, the Firm shall conduct training for all associated persons regarding the Digital Communication Channels that the Firm has approved for business communication, along with the Firm's current policies regarding retention of business-related electronic communications. The Firm shall maintain a record of individual completion of said training and a copy of said training materials in a readily accessible place for ease of review by FINRA staff.
6. The Firm shall conduct the training described in Paragraph 5 above for all new hires, within 65 days from the date of commencement of new hire training, for a term of six years from the date of the LOA. The Firm shall retain a record of all new hire training, including a copy of all written training materials, and keep said record(s) in a readily accessible place for ease of review by FINRA staff.
7. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, establish and maintain a written list(s) of all Digital Communication Channels that its associated persons are permitted to use to communicate about Firm business. The list(s) shall be circulated to all of the Firm's associated persons at least on a semi-annual basis, for a term of six years from the date of the LOA. The Firm shall require that all associated persons obtain written approval for use of any Digital Communication Channels to communicate about Firm business that are not already on the approved list(s) maintained by the Firm. The Firm shall maintain a record of all requests and approvals or rejections of each request, including the date of the

- requests and the Firm's decision. The Firm shall maintain copies of such requests and decisions in a readily accessible place for ease of review by FINRA staff.
8. The Firm shall require all associated persons to disclose on at least a semi-annual basis, for a term of six years from the date of the LOA, any unapproved Digital Communication Channels he/she is using to communicate about Firm business. The Firm shall maintain records of such disclosures in a readily accessible place for ease of review by FINRA staff.
  9. Subject to Paragraph 7 above, the Firm shall prohibit associated persons from using Off-Channel Communications.
  10. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop a process whereby, in the event that an associated person sends or receives an Off-Channel Communication, the Off-Channel Communication is submitted to the Firm and retained in compliance with relevant securities laws and regulations. For a term of six years from the date of the LOA, the Firm shall maintain a record of all such Off-Channel Communications, including a record of the Firm's receipt of the communication, in a readily accessible place for ease of review by FINRA staff.
  11. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop and maintain written supervisory policies and procedures detailing the Firm's processes for disciplining associated persons who use Off-Channel Communications to communicate about Firm business. When the Firm uses the disciplinary process, the Firm shall document each instance. The Firm shall retain records of such written supervisory policies and procedures and records of the disciplinary processes and each outcome.
  12. All requested documents and certifications under this Supervision Plan shall be sent directly to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).
  13. The Firm shall obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of the Supervision Plan.
  14. The Firm shall submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).

## **VII. Discussion**

After carefully reviewing the entire record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating Alpaca's Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual

if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors”). Typically, factors that bear on FINRA’s assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm’s regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm’s continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Alpaca’s securities activities. Although the SEC Order triggered certain disqualifications from exemptions from registration available under the Securities Act of 1933 (“Securities Act”), specifically Regulations A, D and E of the Securities Act and Regulation Crowdfunding, the SEC granted the Firm a waiver from the application of the disqualification provisions of Rules 262(a)(4)(ii), 506(d)(1)(iv)(B), and 602(c)(3) of the Securities Act and Rule 503(a)(4)(ii) of Regulation Crowdfunding. Moreover, the full amount of the civil money penalty was promptly paid. Additionally, the Firm represented that it is in compliance with the ordered undertakings, in that Alpaca has retained an independent compliance consultant who completed its review and is drafting a report.<sup>29</sup>

Member Supervision also acknowledges that within the SEC Order the Commission considered the Firm’s prompt remedial actions and cooperation with the Commission when determining to accept the Offer of Settlement. Specifically, the SEC Order notes that Alpaca enhanced its policies and procedures, increased training concerning the use of approved communications methods including on personal devices and began implementing significant changes to the technology available to personnel, which included providing personnel with a messaging application that retains communications, thereby making approved channels more readily available.<sup>30</sup>

In evaluating the Firm’s application, FINRA notes that Alpaca has no recent regulatory actions filed against it or additional disqualifying orders. Member Supervision also notes that with respect to the Firm’s recent examination exceptions, the Firm took measures to remedy the issue identified including by enhancing its WSPs and IT systems. Following the approval of the Firm’s continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm’s continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.

FINRA is further reassured by the controls set in place by the Firm’s Supervision Plan which bolster the undertakings outlined in the SEC Order and will continue to provide oversight of the Firm and compliance with its remaining undertakings. In accordance with the Plan, the Firm agreed to conduct annual training for all associated persons, including new hires, regarding the Firm’s approved digital communication methods and record retention policies for electronic communications. Further, the Plan calls for the Firm to

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<sup>29</sup> See Exhibit 4.

<sup>30</sup> See Exhibit 2 at p. 5, para. 28.



maintain a list of approved digital communication methods that associated persons are permitted to use for Firm business and to circulate that list to its associated persons semi-annually. The Plan requires the Firm's associated persons to obtain written approval to use digital communication channels not already approved. The Plan prohibits the use of off-channel communications and requires associated persons to semi-annually disclose any unapproved digital communication methods they are using for Firm business; they must also forward any off-channel communications that may have taken place to the Firm for retention purposes. These provisions will help to ensure that the Firm is aware of the communication methods being used by associated persons so that it can appropriately monitor, capture, and retain those communications. Additionally, the Plan mandates that the Firm develop policies and procedures for disciplining associated persons who use unapproved communication methods for Firm business and segregate all certifications, reports, and supporting documentation submitted to the SEC regarding compliance with the undertakings, for ease of review by FINRA staff to ensure ongoing compliance.

Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Supervision Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves Alpaca's Application to continue its membership with FINRA.

FINRA certifies that the Firm meets all qualification requirements and represents that the Firm is registered with several other SROs including DTC and NSCC. The SROs have been provided with the terms and conditions of Alpaca's proposed continued membership and concur with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



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Jennifer Piorko Mitchell  
VP, Corporate Governance &  
Deputy Corporate Secretary

EXHIBITS

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1. MC-400A and related attachments compiled by CRED, with a cover memorandum dated October 22, 2024.
2. SEC Order, *In re Alpaca Securities LLC*, Exchange Act Release No. 101137 (Sept. 24, 2024).
3. *In re Off-Channel Communications at Registered Entities*, Securities Act Release No. 11308 (Sept. 24, 2024).
4. Alpaca Discovery Responses dated February 18, 2025.
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7. Disposition Letter for Examination No. 20220733200 dated April 18, 2023, Examination Report dated December 21, 2022, and Firm Response dated January 20, 2023.
8. SEC Examination Letter, SEC File No. 8-69928 dated October 25, 2023, and Firm Response dated November 28, 2023.
9. Executed Consent to Plan of Heightened Supervision dated January 10, 2025.