

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010024016701**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Beta Capital Management, L.P., Respondent
Member
CRD No. 38964

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Beta Capital Management, L.P. 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, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Beta 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

Beta is a FINRA member and has been such since November 1995. The firm maintains its principal place of business and sole office in Miami, Florida. Beta currently employs 23 registered persons and eight non-registered persons. The firm conducts both retail and institutional securities brokerage business.

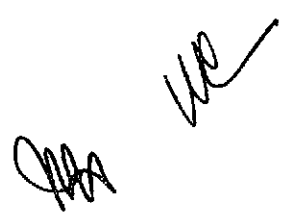
RELEVANT DISCIPLINARY HISTORY

On April 4, 2011, pursuant to an AWC with FINRA, Beta was censured and fined \$20,000 for issuing 866 inaccurate and incomplete confirmations for equity transactions, in violation of SEC Rule 10b-10.

OVERVIEW

From at least 2006 through 2007, Beta did not maintain an order entry system that was reasonably designed to prevent an improper post-execution allocation of trades. As a result of this deficiency, Beta, through certain of its registered

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representatives, facilitated improper post-execution trade allocations at the direction, and to the benefit, of one of its customers. As a result of the foregoing, Beta violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 thereunder, and NASD Conduct Rules 2120, 3010, and 2110.

FACTS AND VIOLATIVE CONDUCT

Deficient Supervisory System

From at least 2006 through 2007, Beta did not maintain an order entry system that was reasonably designed to prevent an improper post-execution allocation of trades. The firm's third party order entry system permitted trades to be entered into the system, without assigning an account to the trades. In certain instances, the firm's operations department allocated trades in the system based on written order tickets that were provided to it well after the trades had been entered, at times after the close of trading, and thus after securities may have increased or decreased in value. During this time period, Beta did not require its registered representatives to provide order tickets to its operations department as soon as the trades were entered into the system. Therefore, order tickets could be completed, and turned into the operations department, later in the day. This deficiency permitted the improper post-execution trade allocations detailed below. As a result of the foregoing, Beta violated NASD Conduct Rules 3010 and 2110.

Improper Post-Execution Allocation of Trades

From 2006 through 2007, Beta facilitated the improper post-execution allocation of trades at the direction, and to the benefit, of customer X. During that time period, customer X directed and controlled two accounts at the firm – an account of which customer X was the beneficial owner ("Account 1") and an institutional account ("Account 2"). Throughout the day, customer X called in orders to Beta's trading desk to purchase and sell securities. Beta entered the trades into the firm's third party electronic order entry system, at times without assigning the trades to one of the two accounts. In certain instances, near or after the close of trading – after the securities had increased or decreased in value – Beta assigned the trades to the two accounts based on instructions from customer X. In many instances, more profitable and more favorably priced trades were allocated to Account 1 for the personal benefit of customer X, while less profitable and less favorably priced trades were allocated to Account 2. For example, in 2006 and 2007, the two accounts engaged in a similar investment strategy of trading equities of nine companies on a short-term basis. During that time period, Account 1 purchased approximately \$116 million of the nine equities and Account 2 purchased approximately \$94 million of the same securities. Despite such comparable trading volume, Account 1 substantially outperformed Account 2 in trading the nine securities. In trading the nine equities over the two-year period of time, Account 1 realized a profit of \$586,220 and Account 2 realized a profit of \$50,789. Account 1 also experienced a higher percentage of winning

trades in the nine equities (76%) than Account 2 (66%). When the two accounts traded one of the same nine equities on the same day during that time period, Account 1 received more favorable pricing than Account 2 74% of the time.

As a result of the foregoing, Beta, through certain of its registered representatives, violated Section 10(b) of the Exchange Act, Rule 10b-5, and NASD Conduct Rules 2120 and 2110.

- B. Beta also consents to the imposition of the following sanctions:

A censure and a \$450,000 fine.

Beta agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Beta has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Beta specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Beta understands that this settlement includes a finding that it violated Section 10(b) of the Exchange Act and Rule 10b-5 and that under Article III, Section 4 of FINRA's By-Laws, that finding subjects the firm to a statutory disqualification with respect to membership.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Beta specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Beta specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, 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.

Beta further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

Beta 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 the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
- C. If accepted:
 - 1. this AWC will become part of Beta's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about its disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Beta 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. Beta may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Beta's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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

The undersigned, on behalf of Beta, 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 Beta has agreed to its 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.

Beta Capital Management, L.P.

09/19/2011
Date (mm/dd/yyyy)

By: 
Maria D. Castillo, Managing Partner

9/19/2011
Date (mm/dd/yyyy)

By: 
Maria E. Healy, Managing Partner

Reviewed by:


A. Patricia Morales Christiansen, Esq.
Casey Ciklin Lubitz Martens & O'Connell
515 N. Flagler Drive, Ste. 2000
West Palm Beach, FL 33401
Phone: (561) 820-0374

Counsel for Respondent

Accepted by FINRA:

9/26/11
Date

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

Michael A. Gross

Michael A. Gross, Esq.
Senior Regional Counsel
Authorized House Counsel
Member of Ohio Bar Only
FINRA – Department of Enforcement
2500 N. Military Trail, Suite 302
Boca Raton, FL 33431-6324
Phone: (561) 443-8125
Fax: (561) 443-7998

BETA CAPITAL MANAGEMENT L.P.

September 19, 2011

Michael A. Gross, Esq.
Senior Regional Counsel
FINRA – Enforcement Department
Crystal Corporate Center
2500 N. Military Trail, Suite 302
Boca Raton, FL 33431-6324

Re: Beta Capital Management, L.P. AWC No. 2010024016701

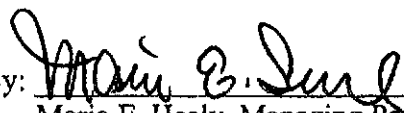
This Corrective Action Statement is submitted by Beta Capital Management, L.P. ("BCM or the "Firm"). It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

BCM has taken several measures of corrective action commencing with changes to its senior management in 2008. The Firm has also replaced its order management systems ("OMS") with the Morcom Trading System ("Morcom"). Morcom OMS requires all trades to be entered with identifying account information, which provides an enhanced front-end supervisory control targeted at ensuring trade allocations are consistent with original order entry instructions. Morcom OMS also enables the Firm to monitor trade entry, execution and allocations on a real-time and post execution basis. The Firm has also subsequently made changes and enhancements to its written supervisory procedures in the areas of order entry/allocation supervision oversight, as well developing and implementing a trade allocation policy. Furthermore, the Firm advised its staff of the aforementioned policy changes, as well as previously providing order entry/trade allocation training as part of its 2010 annual compliance meeting. The Firm believes the aforementioned changes/enhancements related to the it's OMS, related policies/controls and training adequately address regulatory requirements and expectations concerning overall trade processes and controls.

Sincerely,

BETA CAPITAL MANAGEMENT, L.P.


By: Maria D. Castillo, Managing Partner


By: Maria E. Healy, Managing Partner