

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT**

2017052473701

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

RE: Louis Capital Markets, LP (n/k/a Louis Capital Markets, LLC) (Respondent)
Member Firm
CRD No. 48013

Pursuant to FINRA Rule 9216, Respondent Louis Capital Markets, LP 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

The firm became a member of FINRA in January 2000. The firm is a broker-dealer offering services in cash equities, equity derivatives, commodities, currencies, corporate finance, and fixed income products for institutional customers. The firm employs approximately 16 registered representatives across its three branch offices. The firm has no relevant prior disciplinary history.

OVERVIEW

During the period May 20, 2013 through April 10, 2017 (the 2017 exam review period), at various times, the firm failed to register certain principals and did not amend Schedule A of its Form BD to accurately identify certain principals, in violation of NASD Rules 1022(a) and (b), FINRA Bylaws Article IV Section 1(c), and FINRA Rule 2010. Additionally, during the period August 4, 2017 through February 5, 2018 (the 2018 exam review period), the firm failed to establish, document, and maintain risk management controls and supervisory procedures that were reasonably designed to manage the financial, regulatory, and other risks of its business activity, in violation of Securities Exchange Act of 1934 (the Exchange Act) Rule 15c3-5 and FINRA Rules 3110 and 2010, as detailed below.

FACTS AND VIOLATIVE CONDUCT

REGISTRATION

Relevant Rules

1. NASD Rule 1021 requires all persons engaged in the securities business of a member who are to function as principals to be registered as such in the category of registration appropriate to the function to be performed as specified in NASD Rule 1022.
2. NASD Rule 1022(a) requires each person associated with a member who is included within the definition of a principal in Rule 1021, and each person designated as a Chief Compliance Officer (CCO) on Schedule A of Form BD, to be registered as a General Securities Principal (GP) and to pass an appropriate qualification exam before such registration may become effective.¹
3. NASD Rule 1022(b)(1) requires members that are operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i), or (a)(8)² to designate as Limited Principal – Financial and Operations those persons associated with it, at least one of whom shall be its chief financial officer. Paragraph (b)(2) of the rule sets forth the duties of Limited Principals – Financial and Operations to include final approval and responsibility for the preparation and accuracy of financial reports submitted to regulators and supervision of those who assist in the preparation.
4. FINRA Bylaws, Article IV, Section 1(c) requires each applicant and member to “ensure that its membership application...is kept current at all times by supplementary amendments...” The Bylaws also state that amendments to the membership application must be filed with FINRA no later than 30 days after learning of the facts or circumstances giving rise to the amendment.
5. FINRA Rule 2010 requires members, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principles of trade.”

Violative Conduct

6. The firm failed to register its CCO as a General Securities Principal from October 2013 through March 2016. The conduct described in this paragraph constitutes a violation of NASD Rule 1022(a) and FINRA Rule 2010.
7. The firm’s November 2016 month-end financial statements were supervised, approved, and filed by J.G. As such, J.G. was required to be registered as a Limited Principal – Financial and Operations; however, J.G. was not registered with the firm in any capacity at the time. The conduct described in this paragraph constitutes a

¹ NASD Rule 1021 defines principal as “persons associated with a member...who are actively engaged in the management of the member’s investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member for any of these functions...”

² SEC Rule 15c3-1 sets forth net capital requirements for broker-dealers.

violation of NASD Rule 1022(b) and FINRA Rule 2010.

8. During the 2017 exam review period, two individuals, G.S. and M.L., who were employed by one of the firm's affiliates, had final responsibility for the preparation, approval, and accuracy of the firm's financial reports that were submitted to FINRA, but neither were registered as Limited Principals – Financial and Operations, as required by NASD Rule 1022(b). The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 1022(b) and FINRA Rule 2010.
9. During the period March 2013 through March 2016, the firm failed to amend Schedule A of its Form BD to accurately identify its CCO. Specifically, A.B. (CCO1) ceased employment as the firm's CCO in February 2013, but the firm continued to identify CCO1 in this role on its Form BD until September 2015. In September 2015 the firm amended its Form BD to identify another individual as the CCO, but this individual was not employed in this role. As a result of these inaccuracies, the firm failed to identify its actual CCO on its Form BD.³ The conduct described in this paragraph constitutes separate and distinct violations of FINRA Bylaws Article IV Section 1(c) and FINRA Rule 2010.
10. During the period October 2013 through September 2015, the firm failed to amend Schedule A of its Form BD to accurately identify its Chief Financial Officer (CFO) and Financial Operations Principal (FINOP) in these capacities. Instead, the firm's Form BD identified an individual as the firm's CFO and FINOP when they were not employed by the firm to act in these capacities. The conduct described in this paragraph constitutes a violation of FINRA Bylaws Article IV Section 1(c) and FINRA Rule 2010.

EXCHANGE ACT RULE 15c3-5

Relevant Rules

11. Exchange Act Rule 15c3-5 requires that “broker-dealers with market access appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.”⁴
12. Paragraph (a)(1)(i) of the Rule defines market access as “access to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system.”
13. Paragraph (b) of the Rule requires broker-dealers with market access, or that provide a customer or any other person with access to an exchange or an alternative trading system through use of its market participant identifier or otherwise, to “establish, document, and maintain a system of risk management controls and supervisory

³ C.D. (CCO2) was the firm's CCO from March 2013 through October 2013 and E.F. (CCO3) was the CCO from October 2013 through March 2016. Neither were identified on the firm's Form BD.

⁴ Securities Exchange Act Release No. 34-63241, 75 Fed. Reg. 69791, at 69792 (Nov. 15, 2010).

procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.”

14. Paragraph (c)(1) of the Rule requires the risk management controls and supervisory procedures to be reasonably designed to systematically limit the financial exposure of the broker-dealer that could arise as a result of market access, including being reasonably designed to: (i) prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker-dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds; and (ii) prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.
15. Paragraph (c)(2) of the Rule requires the risk management controls and supervisory procedures to be reasonably designed to ensure compliance with all regulatory requirements, including being reasonably designed to: (i) prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis; (ii) prevent the entry of orders for securities for a broker-dealer, customer, or other person if such person is restricted from trading those securities; (iii) restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker-dealer; and (iv) assure that appropriate surveillance personnel receive immediate post-trade execution reports that result from market access.
16. Paragraph (e) of the Rule requires broker-dealers to establish, document, and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures required by paragraphs (b) and (c) of the Rule and for promptly addressing any issues. Paragraph (e)(1) provides that, no less frequently than annually, the broker-dealer shall review the business activity of the broker-dealer in connection with market access to assure the overall effectiveness of such risk management controls and supervisory procedures. The review shall be conducted in accordance with written procedures and shall be documented. Further, the broker-dealer must preserve a copy of such written procedures, and documentation of each such review, as part of its books and records. Paragraph (e)(2) provides that the broker-dealers Chief Executive Officer, or equivalent officer, shall, on an annual basis, certify that such risk management controls and supervisory procedures comply with paragraphs (b) and (c) of the Rule, and that the broker-dealer conducted such review, and such certifications shall be preserved by the broker-dealer as part of its books and records.
17. FINRA Rule 3110(a) provides that members shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. Further, section (b) provides that members shall establish, maintain, and enforce written procedures to supervise the types of business in which

it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

18. FINRA Rule 2010 provides that a member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

Violative Conduct

19. During the 2018 exam review period, the firm was a broker-dealer with “market access,” as defined in paragraph (a)(1)(i) of Exchange Act Rule 15c3-5. The firm was a member of Nasdaq ISE, LLC, an all-electronic options exchange.⁵ As a broker-dealer with market access, the firm was required to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity, as required by paragraph (b) of Exchange Act Rule 15c3-5.
20. The firm failed to establish financial risk management controls and supervisory procedures to systematically limit its financial exposure that could arise as a result of market access. The firm did not have any pre-trade controls designed to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker-dealer and, where appropriate, more finely tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds, as required by paragraph (c)(1)(i). In addition, the firm did not have any pre-trade controls designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters on an order-by-order basis or over a short period of time, or that indicate duplicative orders, as required by paragraph (c)(1)(ii).
21. The firm also failed to establish risk management controls and supervisory procedures to ensure compliance with the regulatory requirements that are outlined in Exchange Act Rule 15c3-5(c)(2). First, the firm did not have any controls or procedures in place to prevent the entry of orders unless all pre-order entry regulatory requirements had been satisfied, as required by paragraph (c)(2)(i). Second, the firm did not have any controls or procedures in place to prevent the entry of orders for securities if such person was restricted from trading those securities, as required by paragraph (c)(2)(ii). Third, the firm did not have controls or procedures in place to restrict access to trading systems and technology that provided market access to people and accounts pre-approved and authorized by the broker-dealer, as required by paragraph (c)(2)(iii). And fourth, the firm had no controls or procedures in place to assure that appropriate surveillance personnel received immediate post-trade execution reports that result from market access, as required by paragraph (c)(2)(iv).

⁵ The firm manually enters orders into the PrecISE terminal and has limited order flow. During the 2018 exam review period, only 22 of the orders the firm entered into PrecISE were executed.

22. Because the firm failed to establish and maintain the risk management controls and supervisory procedures required by Exchange Act Rule 15c3-5, it also failed to comply with paragraph (e) because it did not establish, document, and maintain a system to regularly review the effectiveness of risk management controls and supervisory procedures. The firm failed to conduct an annual review of its business activity in connection with market access to assure its overall effectiveness, as required by paragraph (e)(1), and failed to complete the CEO annual certification, as required by paragraph (e)(2).
23. By virtue of the foregoing, the firm violated Exchange Act Rules 15c3-5(b), (c)(1)(i), (c)(1)(ii), (c)(2)(i), (c)(2)(ii), (c)(2)(iii), (c)(2)(iv), (e)(1), and (e)(2), and FINRA Rules 3110 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

1. A censure;
2. A fine of \$40,000 (comprised of \$10,000 for the registration violations and \$30,000 for the Exchange Act Rule 15c3-5 violations); and
3. An undertaking to revise the firm's risk management controls and supervisory procedures with respect to areas of deficiencies in paragraphs I.A.19 through I.A.23, above. Within 30 business days of acceptance of this AWC, a registered principal of the firm shall submit to the COMPLIANCE ASSISTANT, MARKET REGULATION ENFORCEMENT, 15200 OMEGA DRIVE, SUITE 300, ROCKVILLE, MD 20850 a signed, dated letter, or an email from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (i) a reference to this matter; (ii) a representation that the firm has addressed and corrected the deficiencies described in paragraphs I.A.19 through I.A.23, above; and (iii) the date the deficient procedures were addressed and corrected by the firm.

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, 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 its acceptance or rejection.

Respondent 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

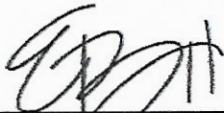
Respondent understands that:

- 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 4. Respondent 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. Respondent 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 Respondent's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

Jan 6th 2021
Date



Louis Capital Markets, LP
Respondent

Print Name: Erin Baskett

Title: CCO

Reviewed by:

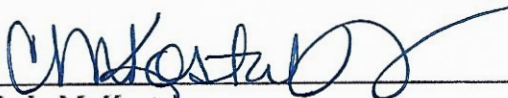


Jeff Kern
Counsel for Respondent
Sheppard Mullin
30 Rockefeller Plaza
New York, NY 10112
(212) 634-3075

Accepted by FINRA:

1/8/21
Date

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



Carly M. Kostakos
Senior Counsel
FINRA
Department of Enforcement