

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Louis Capital Markets, LP

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

SD-2160

Date: November 3, 2017

I. Introduction

On March 5, 2017, Louis Capital Markets, LP (“LCM” or the “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) with FINRA’s Department of Registration and Disclosure.¹ The Application seeks to permit the Firm, a FINRA member subject to a statutory disqualification, to continue its membership with FINRA notwithstanding its disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Regulation (“Member Regulation” or “the Department”) approves the Firm’s 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

LCM is subject to statutory disqualification pursuant to Section 3(a)(39)(F) incorporating by reference Section 15(b)(4)(D) of the Exchange Act as a result of an Order Instituting Administrative and Cease-And-Desist Proceedings (“the Order”) issued by the United States Securities and Exchange Commission (“SEC” or the “Commission”) dated March 29, 2017. In its Order, the SEC found that LCM willfully violated Section 15(c) of the Exchange Act and Rule 15c-1 thereunder, which prohibits fraudulent conduct in connection with the purchase or sale of securities. Among other things, the Order found that members of LCM’s Cash Equity Desk, from at least 2008 through at least October 2012 (the “relevant period”) gave its customers false prices on thousands of securities transactions, thereby saddling the customers with lower sale prices and higher purchase prices than LCM obtained in the markets. These markup and markdowns, which were imposed in addition to commissions, were not adequately disclosed to LCM’s customers, and were inconsistent with the customers’ expectations. By charging these hidden fees, LCM unlawfully obtained millions of dollars from its customers.

¹See the MC-400A Application filed with FINRA by LCM, dated March 5, 2017, as well as related documents (attached as Exhibit 1).

As a result of its misconduct, LCM was ordered to cease and desist from committing or causing any violations and future violations of various provisions of the Exchange Act; LCM was censured; and the Respondent was required to pay a disgorgement of \$2,500,000. Payment was to be made in the following installments: \$1,500,000, within 14 days of the entry of the Order; \$500,000 within 180 days of the entry of the Order;² and \$500,000 within 365 days of the entry of the Order, on March 29, 2018.³ The Firm timely paid the first two disgorgement payments. The third installment of \$500,000, due March 29, 2018, remains outstanding.

III. Background Information

A. The Firm

LCM is a limited liability company and during the relevant period its principal place of business was in New York, New York. The Firm has been a member of FINRA since January 2000,⁴ has three branch offices and employs ten registered representatives and two registered principals.⁵ LCM is engaged in the following types of businesses: broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; 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.⁶ In addition to FINRA, LCM is also a member of the International Securities Exchange (“ISE”).

B. Recent Routine Examinations

In 2015 the Firm’s Off-Cycle Options examination resulted in no findings or exceptions.⁷

In connection with the Firm’s 2013 Cycle Examination,⁸ LCM was cited for seven exceptions. The three most notable exceptions are as follows: the Firm failing to comply with

²The Firm’s second installment was due on September 25, 2017. The SEC’s Finance Department has confirmed that the Firm is current on its installment payment arrangement.

³See the SEC’s 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, In the Matter of Louis Capital Markets, LP, dated March 29, 2017 (attached as Exhibit 2).

⁴See Firm’s Organization Registration Status from the records of the Central Registration Depository (“CRD”) (attached as Exhibit 3).

⁵See Exhibit 1 at p. 36.

⁶See Types of Business for the Firm (attached as Exhibit 4).

⁷See Disposition Letter and Report on the Examination, Examination Number 20150433659, dated November 13, 2015 (attached as Exhibit 5).

⁸See Disposition Letter, dated December 23, 2013, and the Report on the Examination, Examination Number 20130352532, dated November 8, 2013 (collectively attached as Exhibit 6).

NASD By-Laws Article V. Section 2(a)(c) (Application of Registration) because it failed to timely update the Uniform Application for Securities Industry Registration or Transfer, Form U4 (to reflect the Outside Business Activities with Louis Capital Markets UK) for ten (10) registered persons; failing to comply with FINRA Rule 3130(b) (Annual Compliance and Supervisory Process) because the Firm failed to prepare the annual report and the CEO certification, as required by FINRA Rule 3130, for calendar year 2012; and failed to comply with NASD Rule 3010(b)(1) (Written Supervisory Procedures) because it failed to establish procedures to address FINRA Rule 2111 (Suitability) and FINRA Rule 2090 (Know Your Customer) and failed to establish procedures, in various areas, for its public customer options business.

C. FINRA Regulatory Actions Against LCM

Since its inception, the Firm has been the subject of two Letters of Acceptance, Waiver and Consent (“AWC”), in 2003 and 2017, and one Minor Rule Violation (“MRV”), in 2013. In connection with the 2003 AWC, the Firm was fined \$5,000 for failing to make publicly available, in a timely manner, reports for the third and fourth calendar years of 2002 on the Firm’s routing of non-directed orders in covered securities during those quarters.⁹ In the 2017 AWC, during the review period of November 1, 2015 to March 31, 2016, the Firm failed to transmit 387 Reportable Order Events to the Order Audit Trail System (“OATS”) and failed to provide documentary evidence that it performed its supervisory reviews concerning OATS reporting. As a result of that AWC, LCM was censured and fined \$9,000.¹⁰ In the 2013 MRV, the Firm was also cited for OATS violations and was fined \$2,500.¹¹

The Department is not aware of any other complaints, disciplinary proceedings, as a result of or in connection with arbitrations or regulatory actions pending against LCM.

IV. The Firm’s Proposed Continued Membership with FINRA and the Supervisory Plan

Notwithstanding its disqualification, LCM seeks to continue its membership with FINRA. In addition to the independent consultant’s recommendations, the Firm has represented that it has taken additional measures, including among other things, closing its Cash Equity Desk. Further, the persons responsible for the trading desk and its failures are no longer employed at the Firm.¹²

Further, the Firm has complied in a timely manner with the first payment installment of \$1,500,000, which was due fourteen days after the Order and the second installment payment of \$500,000, which was due within 180 days of the Order.

⁹See NASD AWC, No. CMS030200, accepted on August 27, 2003 (attached as Exhibit 7).

¹⁰See FINRA AWC, No. 20160499014-01, accepted on June 23, 2017 (attached as Exhibit 8).

¹¹See the 2013 MRV, No. 20130379482-01, dated February 13, 2015 (attached as Exhibit 9).

¹²See Exhibit 1 at p. 39.

V. Discussion

After reviewing the record in this matter, including the above representations by the Firm, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth below.

In evaluating this 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. 3, Sec. 3(d)). Factors that bear on FINRA's assessment include the fact that the events leading to the Firm's disqualification concluded in 2012, the nature and gravity of the statutorily disqualifying misconduct, the restrictions imposed on the Firm, and whether there has been any intervening misconduct.

As stated earlier, the Firm has represented that it has already undertaken steps, both before and after the imposition of the SEC's Order, to remedy the violations. Specifically, the Firm represents that its parent terminated all employees who engaged in the misconduct and ceased operations of its Cash Equity Desk in 2013. Further, the Firm has indicated that it only conducts an options business and does not plan to conduct any other type of business.¹³ Further, once the Firm has completed the final payment of its disgorgement penalty on March 29, 2018, it will no longer be subject to any statutory disqualification implications.

LCM's disciplinary history does not reflect any similar violations subsequent to the entry of the Order. While FINRA has brought two formal disciplinary actions against the Firm, those actions were unrelated to the violative conduct at issue in the SEC's Order.

Given the special procedures set forth below, FINRA believes that the Firm has met its burden, and that its continued membership with FINRA will not create an unreasonable risk of harm to the market or investors:¹⁴

1. The Firm must comply with the SEC's installment plan and make its final payment, in connection with the Order, by March 29, 2018. Further, the Firm must notify FINRA, in writing, no later than five business days after it has made its final payment;
2. LCM has represented that it ceased its Cash Equity Desk business in 2013. If the Firm were to seek to reengage in this practice or engage in this line of business, it must first file an application as provided for in NASD Rule 1017 and obtain FINRA's approval; and

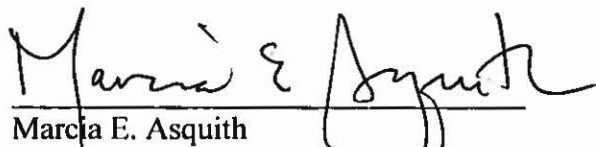
¹³ *Id.*

¹⁴ *See* the letter from Lorraine Lee-Stepney of FINRA, to Michael Benhamou, Managing Partner of LCM, wherein the Firm agrees to its plan of heightened supervision, dated October 23, 2017 (attached as Exhibit 10).

3. The Firm has represented it terminated the employment of the persons responsible for the trading on the desk and involved in the statutorily disqualifying event. If the Firm were to again seek to employ those persons, it must notify FINRA, in writing of its intention to do so.

FINRA certifies that the Firm meets all qualification requirements. ISE has concurred with FINRA's determination to permit the Firm's continued membership. In conformity with the provisions of SEA Rule 19h-1, 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 Commission.

On Behalf of FINRA

A handwritten signature in cursive script, appearing to read "Marcia E. Asquith". The signature is written in black ink and is positioned above a horizontal line.

Marcia E. Asquith
Executive Vice President and Corporate Secretary

Exhibits

1. The MC-400A Application filed with FINRA by LCM, dated March 5, 2017, as well as related documents.
2. SEC's 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, In the Matter of Louis Capital Markets, LP, dated March 29, 2017.
3. The Firm's Organization Registration Status from the records of Central Registration Depository ("CRD).
4. Types of Business for the Firm.
5. Disposition Letter and Report on the Examination, Examination Number 20150433659, dated November 13, 2015.
6. Disposition Letter, dated December 23, 2013, and the Report on the Examination, Examination Number 20130352532, dated November 8, 2013.
7. NASD AWC, No. CMS030200, accepted on August 27, 2003.
8. FINRA AWC, No. 20160499014-01, accepted on June 23, 2017.
9. 2013 MRV, No. 20130379482-01, dated February 13, 2015.
10. Letter from Lorraine Lee-Stepney of FINRA, to Michael Benhamou, Managing Partner of LCM, wherein the Firm agrees to its plan of heightened supervision, dated October 23, 2017.