

BrokerCheck Report

COWEN EQUITY FINANCE LP

CRD# 10019

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When communicating online or investing with any professional, make sure you know who you're dealing with. [Imposters](#) might link to sites like BrokerCheck from [phishing](#) or similar scam websites, or through [social media](#), trying to steal your personal information or your money.

Please contact FINRA with any concerns.

About BrokerCheck®

BrokerCheck offers information on all current, and many former, registered securities brokers, and all current and former registered securities firms. FINRA strongly encourages investors to use BrokerCheck to check the background of securities brokers and brokerage firms before deciding to conduct, or continue to conduct, business with them.

- **What is included in a BrokerCheck report?**

- BrokerCheck reports for individual brokers include information such as employment history, professional qualifications, disciplinary actions, criminal convictions, civil judgments and arbitration awards. BrokerCheck reports for brokerage firms include information on a firm's profile, history, and operations, as well as many of the same disclosure events mentioned above.

- Please note that the information contained in a BrokerCheck report may include pending actions or allegations that may be contested, unresolved or unproven. In the end, these actions or allegations may be resolved in favor of the broker or brokerage firm, or concluded through a negotiated settlement with no admission or finding of wrongdoing.

- **Where did this information come from?**

- The information contained in BrokerCheck comes from FINRA's Central Registration Depository, or CRD® and is a combination of:
 - o information FINRA and/or the Securities and Exchange Commission (SEC) require brokers and brokerage firms to submit as part of the registration and licensing process, and
 - o information that regulators report regarding disciplinary actions or allegations against firms or brokers.

- **How current is this information?**

- Generally, active brokerage firms and brokers are required to update their professional and disciplinary information in CRD within 30 days. Under most circumstances, information reported by brokerage firms, brokers and regulators is available in BrokerCheck the next business day.

- **What if I want to check the background of an investment adviser firm or investment adviser representative?**

- To check the background of an investment adviser firm or representative, you can search for the firm or individual in BrokerCheck. If your search is successful, click on the link provided to view the available licensing and registration information in the SEC's Investment Adviser Public Disclosure (IAPD) website at <https://www.adviserinfo.sec.gov>. In the alternative, you may search the IAPD website directly or contact your state securities regulator at <http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/P455414>.

- **Are there other resources I can use to check the background of investment professionals?**

- FINRA recommends that you learn as much as possible about an investment professional before deciding to work with them. Your state securities regulator can help you research brokers and investment adviser representatives doing business in your state.

• **Thank you for using FINRA BrokerCheck.**



Using this site/information means that you accept the FINRA BrokerCheck Terms and Conditions. A complete list of Terms and Conditions can be found at brokercheck.finra.org



For additional information about the contents of this report, please refer to the User Guidance or www.finra.org/brokercheck. It provides a glossary of terms and a list of frequently asked questions, as well as additional resources. For more information about FINRA, visit www.finra.org.



COWEN EQUITY FINANCE LP

CRD# 10019

SEC# 8-25976

Main Office Location

599 LEXINGTON AVE
NEW YORK, NY 10022

Mailing Address

599 LEXINGTON AVE
NEW YORK, NY 10022

Business Telephone Number

(646) 562-1481

Report Summary for this Firm

This report summary provides an overview of the brokerage firm. Additional information for this firm can be found in the detailed report.

Firm Profile

This firm is classified as a partnership.
This firm was formed in Delaware on 01/01/1991.
Its fiscal year ends in December.

Firm History

Information relating to the brokerage firm's history such as other business names and successions (e.g., mergers, acquisitions) can be found in the detailed report.

Firm Operations

This brokerage firm is no longer registered with FINRA or a national securities exchange.

Disclosure Events

Brokerage firms are required to disclose certain criminal matters, regulatory actions, civil judicial proceedings and financial matters in which the firm or one of its control affiliates has been involved.

Are there events disclosed about this firm? **Yes**

The following types of disclosures have been reported:

Type	Count
Regulatory Event	2



Registration Withdrawal Information

This section provides information relating to the date the brokerage firm ceased doing business and the firm's financial obligations to customers or other brokerage firms.

Date firm ceased business:	01/14/2015
Does this brokerage firm owe any money or securities to any customer or brokerage firm?	Yes
Number of customers owed funds or securities:	0
Amount of money owed to customer:	\$0.00
Amount of money owed to brokerage firm:	\$104,365,000.00
Market value of securities owed to customer:	\$0.00
Market value of securities owed to brokerage firm:	\$105,500,000.00
Payment arrangement:	THE FIRM OPERATES A MATCH BOOK STOCK LOAN PROGRAM. ALL CASH OWED TO OTHER BROKER DEALERS IS COLLATERALIZED WITH SECURITIES AND ALL SECURITIES OWED TO BROKER DEALERS IS COLLATERALIZED WITH CASH. THE FIRM IS IN THE PROCESS OF WINDING DOWN THESE POSITIONS AND EXPECTS ALL POSITIONS TO BE WOUND DOWN BY JANUARY 31, 2015.



Firm Profile

This firm is classified as a partnership.

This firm was formed in Delaware on 01/01/1991.

Its fiscal year ends in December.

Firm Names and Locations

This section provides the brokerage firm's full legal name, "Doing Business As" name, business and mailing addresses, telephone number, and any alternate name by which the firm conducts business and where such name is used.

COWEN EQUITY FINANCE LP
Doing business as COWEN EQUITY FINANCE LP
CRD# 10019
SEC# 8-25976

Main Office Location
599 LEXINGTON AVE
NEW YORK, NY 10022

Mailing Address
599 LEXINGTON AVE
NEW YORK, NY 10022

Business Telephone Number
(646) 562-1481

Other Names of this Firm

Name	Where is it used
ARSENAL ADVISORS	NY
PATOLAN PARTNERS	NY



Firm Profile

This section provides information relating to all direct owners and executive officers of the brokerage firm.

Direct Owners and Executive Officers

Legal Name & CRD# (if any):	COWEN STRUCTURED HOLDINGS INC.
Is this a domestic or foreign entity or an individual?	Domestic Entity
Position	LIMITED PARTNER
Position Start Date	11/2012
Percentage of Ownership	75% or more
Does this owner direct the management or policies of the firm?	Yes
Is this a public reporting company?	No

Legal Name & CRD# (if any):	COWEN EQUITY FINANCE GROUP LLC
Is this a domestic or foreign entity or an individual?	Domestic Entity
Position	GENERAL PARTNER
Position Start Date	11/2012
Percentage of Ownership	Less than 5%
Does this owner direct the management or policies of the firm?	Yes
Is this a public reporting company?	No

Legal Name & CRD# (if any):	FIORELLO, JOHN 2883294
Is this a domestic or foreign entity or an individual?	Individual
Position	CHIEF COMPLIANCE OFFICER
Position Start Date	11/2012
Percentage of Ownership	Less than 5%

Firm Profile



Direct Owners and Executive Officers (continued)

Does this owner direct the management or policies of the firm? No

Is this a public reporting company? No

Legal Name & CRD# (if any): HOLMES, JOHN
1281617

Is this a domestic or foreign entity or an individual? Individual

Position CHIEF FINANCIAL OFFICER (11/2012) CHIEF ADMINISTRATIVE OFFICER (4/2013) AND CHIEF EXECUTIVE OFFICER (8/2014)

Position Start Date 11/2012

Percentage of Ownership Less than 5%

Does this owner direct the management or policies of the firm? Yes

Is this a public reporting company? No

Legal Name & CRD# (if any): KHOWONG, PHONGSY
2379055

Is this a domestic or foreign entity or an individual? Individual

Position FINOP

Position Start Date 11/2012

Percentage of Ownership Less than 5%

Does this owner direct the management or policies of the firm? No

Is this a public reporting company? No

Firm Profile

This section provides information relating to any indirect owners of the brokerage firm.



Indirect Owners

Legal Name & CRD# (if any):	COWEN GROUP INC.
Is this a domestic or foreign entity or an individual?	Domestic Entity
Company through which indirect ownership is established	COWEN EQUITY FINANCE GROUP, LLC AND COWEN STRUCTURED HOLDINGS INC
Relationship to Direct Owner	SOLE INDIRECT PARENT
Relationship Established	11/2012
Percentage of Ownership	75% or more
Does this owner direct the management or policies of the firm?	Yes
Is this a public reporting company?	No

Firm History

This section provides information relating to any successions (e.g., mergers, acquisitions) involving the firm.

No information reported.



Firm Operations



Registrations

This section provides information about the regulators (Securities and Exchange Commission (SEC), self-regulatory organizations (SROs), and U.S. states and territories) with which the brokerage firm is currently registered and licensed, the date the license became effective, and certain information about the firm's SEC registration.

This firm is no longer registered.

The firm's registration was from 07/01/1981 to 03/24/2015.



Firm Operations

Types of Business

This section provides the types of business, including non-securities business, the brokerage firm is engaged in or expects to be engaged in.

This firm currently conducts 2 types of businesses.

Types of Business

Private placements of securities

Other - THE APPLICANT ACTS AS AN INTERMEDIARY IN THE BORROWING AND RELENDING (DIRECTLY OR SYNTHETICALLY) AND IN THE REPURCHASE AND REVERSE REPURCHASE OF SECURITIES AND DERIVES A PROFIT FROM THE SPREAD IN INTEREST RATES BETWEEN OFFSETTING CONTRACTS

Other Types of Business

This firm does not effect transactions in commodities, commodity futures, or commodity options.

This firm does not engage in other non-securities business.

Non-Securities Business Description:

Firm Operations



Clearing Arrangements

This firm does not hold or maintain funds or securities or provide clearing services for other broker-dealer(s).

Introducing Arrangements

This firm does not refer or introduce customers to other brokers and dealers.

Firm Operations

Industry Arrangements



This firm does not have books or records maintained by a third party.

This firm does not have accounts, funds, or securities maintained by a third party.

This firm does not have customer accounts, funds, or securities maintained by a third party.

Control Persons/Financing

This firm does not have individuals who control its management or policies through agreement.

This firm does not have individuals who wholly or partly finance the firm's business.



Firm Operations

Organization Affiliates

This section provides information on control relationships the firm has with other firms in the securities, investment advisory, or banking business.

This firm is, directly or indirectly:

- in control of
 - controlled by
 - or under common control with
- the following partnerships, corporations, or other organizations engaged in the securities or investment advisory business.

HEALTHCARE ROYALTY MANAGEMENT, LLC is under common control with the firm.

CRD #:	169355
Business Address:	300 ATLANTIC STREET STAMFORD, CT 06901
Effective Date:	05/01/2014
Foreign Entity:	No
Country:	
Securities Activities:	No
Investment Advisory Activities:	Yes
Description:	HEALTHCARE ROYALTY MANAGEMENT, LLC AND COWEN EQUITY FINANCE LP ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP INC.

RAMIUS TRADING STRATEGIES LLC is under common control with the firm.

CRD #:	153417
Business Address:	599 LEXINGTON AVE NEW YORK, NY 10022
Effective Date:	03/11/2013
Foreign Entity:	No
Country:	
Securities Activities:	No
Investment Advisory Activities:	Yes
Description:	RAMIUS TRADING STRATEGIES AND APPLICANT ARE UNDER THE COMMON

Firm Operations



Organization Affiliates (continued)

CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP INC.

COWEN AND COMPANY is under common control with the firm.

CRD #:	7616
Business Address:	599 LEXINGTON AVE NEW YORK, NY 10011
Effective Date:	11/01/2012
Foreign Entity:	No
Country:	
Securities Activities:	Yes
Investment Advisory Activities:	No
Description:	COWEN AND COMPANY, LLC AND APPLICANT ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP INC.

RAMIUS STRUCTURED CREDIT GROUP LLC is under common control with the firm.

CRD #:	135564
Business Address:	599 LEXINGTON AVE NY, NY 10022
Effective Date:	11/01/2012
Foreign Entity:	No
Country:	
Securities Activities:	No
Investment Advisory Activities:	Yes
Description:	RAMIUS STRUCTURED CREDIT GROUP LLC AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

ATM is under common control with the firm.

CRD #:	137211
Business Address:	525 WASHINGTON BLVD 33RD FL JERSEY CITY, NJ 07310

Firm Operations



Organization Affiliates (continued)

Effective Date: 11/01/2012

Foreign Entity: No

Country:

Securities Activities: No

Investment Advisory Activities: No

Description: ATM USA, LLC AND APPLICANT ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

ATM EXECUTION LLC is under common control with the firm.

CRD #: 122529

Business Address: 599 LEXINGTON AVE
NY, NY 10022

Effective Date: 11/01/2012

Foreign Entity: No

Country:

Securities Activities: Yes

Investment Advisory Activities: No

Description: ATM EXECUTION LLC AND APPLICANT ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP INC.

RAMIUS LLC is under common control with the firm.

CRD #: 151953

Business Address: 599 LEXINGTON AVE
NY, NY 10022

Effective Date: 11/01/2012

Foreign Entity: No

Country:

Securities Activities: No

Investment Advisory Activities: Yes

Firm Operations



Organization Affiliates (continued)

Description: RAMIUS LLC AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

RAMIUS UK LTD is under common control with the firm.

Business Address: 10 BRUTON STREET
LONDON, UK W1J 6PX

Effective Date: 11/01/2012

Foreign Entity: Yes

Country: CAYMAN ISLANDS

Securities Activities: No

Investment Advisory Activities: Yes

Description: RAMIUS UK LTD AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

RAMIUS ASIA LLC is under common control with the firm.

CRD #: 137358

Business Address: 599 LEXINGTON AVE
NY, NY 10022

Effective Date: 11/01/2012

Foreign Entity: No

Country:

Securities Activities: No

Investment Advisory Activities: Yes

Description: RAMIUS ASIA LLC AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

RAMIUS ALTERNATIVE SOLUTIONS LLC is under common control with the firm.

CRD #: 110879

Business Address: 599 LEXINGTON AVE
NY, NY 10022

Effective Date: 11/01/2012

Firm Operations



Organization Affiliates (continued)

Foreign Entity:	No
Country:	
Securities Activities:	No
Investment Advisory Activities:	Yes
Description:	RAMIUS ALTERNATIVE SOLUTIONS LLC AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

RAMIUS ADVISORS, LLC is under common control with the firm.

CRD #:	110806
Business Address:	599 LEXINGTON AVE NY, NY 10022
Effective Date:	11/01/2012
Foreign Entity:	No
Country:	
Securities Activities:	No
Investment Advisory Activities:	Yes
Description:	RAMIUS ADVISORS LLC AND APPLICANT ARE UNDER COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

COWEN AND COMPANY ASIA is under common control with the firm.

Business Address:	JARDINE HOUSE ONE CONNAUGHT PLACE - SUITE 3518 CENTRAL HONG KONG, HONG KONG
Effective Date:	11/01/2012
Foreign Entity:	Yes
Country:	HONG KONG
Securities Activities:	Yes
Investment Advisory Activities:	No
Description:	COWEN AND COMPANY ASIA AND APPLICANT ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC

Firm Operations



Organization Affiliates (continued)

COWEN INTERNATIONAL LIMITED is under common control with the firm.

Business Address:	1 SNOWDEN STREET - 11TH FLOOR LONDON, UK EC2A 2DQ
Effective Date:	11/01/2012
Foreign Entity:	Yes
Country:	UK
Securities Activities:	Yes
Investment Advisory Activities:	No
Description:	BOTH COWEN INTERNATIONAL LIMITED AND APPLICANT ARE UNDER THE COMMON CONTROL OF THE SAME ULTIMATE PARENT, COWEN GROUP, INC.

This firm is not directly or indirectly, controlled by the following:

- bank holding company
- national bank
- state member bank of the Federal Reserve System
- state non-member bank
- savings bank or association
- credit union
- or foreign bank



Disclosure Events

All firms registered to sell securities or provide investment advice are required to disclose regulatory actions, criminal or civil judicial proceedings, and certain financial matters in which the firm or one of its control affiliates has been involved. For your convenience, below is a matrix of the number and status of disclosure events involving this brokerage firm or one of its control affiliates. Further information regarding these events can be found in the subsequent pages of this report.

	Pending	Final	On Appeal
Regulatory Event	0	2	0



Disclosure Event Details

What you should know about reported disclosure events:

1. **BrokerCheck provides details for any disclosure event that was reported in CRD. It also includes summary information regarding FINRA arbitration awards in cases where the brokerage firm was named as a respondent.**
2. **Certain thresholds must be met before an event is reported to CRD, for example:**
 - o A law enforcement agency must file formal charges before a brokerage firm is required to disclose a particular criminal event.
3. **Disclosure events in BrokerCheck reports come from different sources:**
 - o Disclosure events for this brokerage firm were reported by the firm and/or regulators. When the firm and a regulator report information for the same event, both versions of the event will appear in the BrokerCheck report. The different versions will be separated by a solid line with the reporting source labeled.
4. **There are different statuses and dispositions for disclosure events:**
 - o A disclosure event may have a status of *pending*, *on appeal*, or *final*.
 - A "pending" event involves allegations that have not been proven or formally adjudicated.
 - An event that is "on appeal" involves allegations that have been adjudicated but are currently being appealed.
 - A "final" event has been concluded and its resolution is not subject to change.
 - o A final event generally has a disposition of *adjudicated*, *settled* or *otherwise resolved*.
 - An "adjudicated" matter includes a disposition by (1) a court of law in a criminal or civil matter, or (2) an administrative panel in an action brought by a regulator that is contested by the party charged with some alleged wrongdoing.
 - A "settled" matter generally involves an agreement by the parties to resolve the matter. Please note that firms may choose to settle customer disputes or regulatory matters for business or other reasons.
 - A "resolved" matter usually involves no payment to the customer and no finding of wrongdoing on the part of the individual broker. Such matters generally involve customer disputes.
5. **You may wish to contact the brokerage firm to obtain further information regarding any of the disclosure events contained in this BrokerCheck report.**

Regulatory - Final

This type of disclosure event involves (1) a final, formal proceeding initiated by a regulatory authority (e.g., a state securities agency, self-regulatory organization, federal regulator such as the U.S. Securities and Exchange Commission, foreign financial regulatory body) for a violation of investment-related rules or regulations; or (2) a revocation or suspension of the authority of a brokerage firm or its control affiliate to act as an attorney, accountant or federal contractor.

Disclosure 1 of 2

Reporting Source: Regulator

Current Status: Final



Allegations: SEC RULES 200 AND 203 OF REGULATION SHO, NASD RULES 2110, 3010: THE FIRM (1) MISMARKED A SHORT SALE AS A LONG SALE; (2) ON TWO OCCASIONS FAILED TO TIMELY DELIVER ON ITS SALE OF A THRESHOLD SECURITY, WHICH SALE WAS MARKED LONG, ON OR BEFORE THE SETTLEMENT DATE OF THE TRADE; AND (3) ON THESE TWO OCCASIONS, FAILED TO DELIVER POSITION IN A THRESHOLD SECURITY FOR 13 CONSECUTIVE SETTLEMENT DATES AND FAILED TO IMMEDIATELY THEREAFTER CLOSE OUT THE FAIL TO DELIVER POSITION. FURTHER, ONE SUCH FAIL TO CLOSE LASTED 41 SETTLEMENT DAYS, AND THE OTHER LASTED 20 SETTLEMENT DAYS. DESPITE HAVING ENOUGH SHARES AVAILABLE TO CLOSE OUT ITS OWN FAIL, THE FIRM LOANED SHARES, IN A SERIES OF SHORT-TERM LOANS, TO OTHER FIRMS, GENERATING A PROFIT FOR THE FIRM OF APPROXIMATELY \$33,300. IN ADDITION, THE FIRM'S WRITTEN SUPERVISORY PROCEDURES FAILED TO ADDRESS COMPLIANCE WITH REGULATION SHO. THE FIRM'S WRITTEN SUPERVISORY PROCEDURES HAD BEEN PREPARED PRIOR TO REGULATION SHO; ALTHOUGH THESE PROCEDURES WERE IN EFFECT DURING THE RELEVANT PERIOD, THEY HAD NOT BEEN UPDATED TO REFLECT THE REQUIREMENTS OF REGULATION SHO. THE FIRM'S PROCEDURES DURING THE RELEVANT PERIOD CONTAINED, AMONG OTHER THINGS, TWO PAGES ON TRADING PROCEDURES, INCLUDING TWO PARAGRAPHS ON SHORT SALES AND ONE PARAGRAPH STATING THAT THE FIRM WOULD MAKE AN AFFIRMATIVE DETERMINATION THAT IT WOULD BE ABLE TO PROVIDE DELIVERY OF THE SUBJECT SECURITY BEFORE THE FIRM WOULD EFFECT ANY SHORT SALE. HOWEVER, THERE WAS NO MENTION IN THESE PROCEDURES OF THE FIRM'S RESPONSIBILITIES WITH RESPECT TO REGULATION SHO AND THRESHOLD SECURITIES.

Initiated By: FINRA

Date Initiated: 12/17/2010

Docket/Case Number: [2007008813501](#)

Principal Product Type: Equity - OTC

Other Product Type(s):

Principal Sanction(s)/Relief Sought: Other

Other Sanction(s)/Relief Sought: N/A

Resolution: Acceptance, Waiver & Consent(AWC)

Resolution Date: 12/17/2010



Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?

No

Sanctions Ordered:

Censure
Monetary/Fine \$82,500.00

Other Sanctions Ordered:

Sanction Details:

WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE IT IS CENSURED AND FINED \$82,500, WHICH INCLUDES DISGORGEMENT OF \$33,300 IN PROFITS REALIZED IN CONNECTION WITH THE LOANS THE FIRM MADE WHILE NOT IN COMPLIANCE WITH REGULATION SHO.

Reporting Source:

Firm

Current Status:

Final

Allegations:

ON DECEMBER 17, 2010, THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA") ISSUED A "LETTER OF ACCEPTANCE, WAIVER AND CONSENT" ("AWC") REGARDING THE APPLICANT ("KDC"). KDC CONSENTED TO THE AWC WITHOUT ADMITTING OR DENYING THE FINDINGS. THE AWC RELATES TO THE SETTLEMENT OF TWO TRADES MADE IN 2006 AND 2007 AND FOUND THAT KDC MISMARKED ONE SHORT SALE AS A LONG SALE, FAILED TO TIMELY DELIVER THRESHOLD SECURITIES ON OR BEFORE SETTLEMENT DATE ON TWO OCCASIONS, FAILED TO RESOLVE THESE FAILS WITHIN THE PRESCRIBED TIME PERIOD REQUIRED BY REG SHO, AND FAILED TO SPECIFICALLY ADDRESS REG SHO AND THRESHOLD SECURITIES IN ITS WRITTEN SUPERVISORY PROCEDURES. THE AWC CENSURED KDC AND IMPOSED A FINE OF \$82,500.

Initiated By:

FINANCIAL INDUSTRY REGULATORY AUTHORITY

Date Initiated:

12/17/2010

Docket/Case Number:

[2007008813501](#)

Principal Product Type:

Equity Listed (Common & Preferred Stock)

Other Product Type(s):

Principal Sanction(s)/Relief Sought:

Civil and Administrative Penalt(ies) /Fine(s)



Other Sanction(s)/Relief Sought:	CENSURE
Resolution:	Acceptance, Waiver & Consent(AWC)
Resolution Date:	12/17/2010
Sanctions Ordered:	Censure Monetary/Fine \$82,500.00
Other Sanctions Ordered:	
Sanction Details:	WITHOUT ADMITTING OR DENYING THE FINDINGS THE APPLICANT CONSENTED TO CENSURE AND A MONETARY FINE OF \$82,500
Firm Statement	THE MATTER WAS RESOLVED ON DECEMBER 17, 2010 AS KDC CONSENTED TO THE AWC WITHOUT ADMITTING OR DENYING THE FINDINGS.

Disclosure 2 of 2

Reporting Source:	Regulator
Current Status:	Final
Allegations:	SECTION 17(A) OF THE SECURITIES EXCHANGE ACT OF 1934, SEC RULES 17A-3 AND 17A-4, NASD RULES 2110, 3010, 3110: EMPLOYEES IN KDC MERGER ARBITRAGE FUND, LP'S (KDC) SECURITIES LENDING DEPARTMENT KNOWINGLY MADE FALSE ENTRIES INTO THE FIRM'S ELECTRONIC SYSTEM INDICATING STOCK FINDERS THAT HAD BEEN USED TO LOCATE SECURITIES OR COUNTERPARTIES WHEN IN FACT THE FINDERS HAD PERFORMED NO LEGITIMATE SERVICES. THIS CAUSED KDC TO MAKE PAYMENTS TO THOSE PURPORTED FINDERS. THE FINDER SUBSEQUENTLY PAID A PORTION OF THEIR ILL-GOTTEN PAYMENTS DIRECTLY TO THE KDC EMPLOYEES WHO MADE THE FINDER ENTRIES INTO THE FIRM'S SYSTEM. THESE EMPLOYEES WERE INDICTED FOR THEIR ACTIVITIES AND PLED GUILTY TO CHARGES OF CONSPIRACY TO COMMIT WIRE FRAUD. ANOTHER KDC EMPLOYEE ALSO CAUSED THE FIRM TO PAY FINDERS IN TRANSACTIONS FOR WHICH HE KNEW OR SHOULD HAVE KNOWN THAT THE FINDERS PERFORMED NO SERVICES, BUT HE WAS NOT CRIMINALLY CHARGED. THE FIRM'S WRITTEN PROCEDURES AND GUIDELINES ADDRESSING THE FIRM'S USE OF FINDERS WERE INADEQUATE. WHILE THE FIRM'S PROCEDURES REQUIRED A SUPERVISOR TO REVIEW SECURITIES LENDING TRANSACTIONS ON A DAILY BASIS, THE PROCEDURES DID NOT PROVIDE GUIDANCE TO SUPERVISORS WHO ASSUMED THAT RESPONSIBILITY: THE PROCEDURES DID NOT INSTRUCT THE STOCK LOAN SUPERVISORS AS TO WHAT THEY WERE TO LOOK FOR IN REVIEWING TRANSACTION REPORTS, HOW TO



DETERMINE WHAT STOCK LOAN ACTIVITY, INCLUDING RATES, WAS TO BE FLAGGED AS SUSPICIOUS, HOW THEY WERE TO REVIEW DOCUMENTS, HOW TO MAINTAIN DOCUMENTATION OF THE REVIEWS, OR HOW THEY WERE TO FOLLOW UP ON ANY SUSPICIOUS ACTIVITY THEY DISCOVERED. THE FIRM ALSO KEPT INSUFFICIENT DOCUMENTARY EVIDENCE TO ESTABLISH THAT A SUPERVISOR ADEQUATELY REVIEWED KDC'S SECURITIES LENDING ACTIVITIES. ADDITIONALLY, THE FIRM HAD NO WRITTEN PROCEDURES REQUIRING SUPERVISORY REVIEW OF ELECTRONIC COMMUNICATIONS OR ADDRESSING HOW THE SUPERVISOR OF THE SECURITIES LENDING DEPARTMENT SHOULD REVIEW EMPLOYEES' COMMUNICATIONS WITH OTHER EMPLOYEES, COUNTERPARTIES, OR FINDERS. THE FIRM CREATED AND MAINTAINED BOOKS AND RECORDS THAT INACCURATELY REFLECTED THAT FINDERS HAD PARTICIPATED IN STOCK LOAN TRANSACTIONS AND WERE PAID FOR SERVICES RENDERED WHEN IN CERTAIN INSTANCES FINDERS HAD NOT PERFORMED ANY FUNCTION RELATING TO THE TRANSACTIONS AND HAD NOT RENDERED SERVICES TO JUSTIFY THE PAYMENTS. IN ADDITION, KDC FAILED TO RETAIN, AS REQUIRED, E-MAIL SENT AND RECEIVED VIA ITS PRIMARY CORPORATE E-MAIL SYSTEM AND AN ADDITIONAL E-MAIL SYSTEM. MOREOVER, THE FIRM FAILED TO RETAIN, AS REQUIRED, ELECTRONIC COMMUNICATIONS USING AN INSTANT MESSAGING SYSTEM.

Initiated By:	FINRA
Date Initiated:	07/21/2010
Docket/Case Number:	2007010580901
Principal Product Type:	Equity Listed (Common & Preferred Stock)
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Other
Other Sanction(s)/Relief Sought:	N/A
Resolution:	Acceptance, Waiver & Consent(AWC)
Resolution Date:	07/21/2010
Does the order constitute a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?	No
Sanctions Ordered:	Censure



Monetary/Fine \$350,000.00

Other Sanctions Ordered:

Sanction Details:

WITHOUT ADMITTING OR DENYING THE FINDINGS, KDC MERGER ARBITRAGE FUND, LP CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE IT IS CENSURED AND FINED \$350,000.

Reporting Source:

Firm

Current Status:

Final

Allegations:

ON JUNE 21, 2010, THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA") ISSUED A "LETTER OF ACCEPTANCE, WAIVER AND CONSENT" REGARDING THE APPLICANT ("KDC"). KDC CONSENTED TO THE AWC WITHOUT ADMITTING OR DENYING THE FINDINGS. THE AWC RELATES TO THE OPERATIONS OF KDC'S SECURITIES LENDING DEPARTMENT DURING A PERIOD THAT ENDED IN LATE 2004. THE AWC FOUND THAT KDC FAILED TO MAINTAIN WRITTEN PROCEDURES AND FULLY ACCURATE DOCUMENTS RELATING TO THE USE OF STOCK LOAN FINDERS AND FAILED TO RETAIN ALL REQUIRED E-MAILS. THE AWC CENSURED KDC AND IMPOSED A FINE OF \$350,000.

Initiated By:

FINANCIAL INDUSTRY REGULATORY AUTHORITY

Date Initiated:

07/21/2010

Docket/Case Number:

[2007010580901](#)

Principal Product Type:

Equity Listed (Common & Preferred Stock)

Other Product Type(s):

Principal Sanction(s)/Relief Sought:

Civil and Administrative Penalt(ies) /Fine(s)

Other Sanction(s)/Relief Sought:

CENSURE

Resolution:

Acceptance, Waiver & Consent(AWC)

Resolution Date:

07/21/2010

Sanctions Ordered:

Censure
Monetary/Fine \$350,000.00

Other Sanctions Ordered:

Sanction Details:

WITHOUT ADMITTING OR DENYING THE FINDINGS THE APPLICANT CONSENTED TO CENSURE AND MONETARY FINE OF \$350K.



Firm Statement

THE MATTER WAS RESOLVED ON JUNE 21, 2010 AS KDC CONSENTED TO THE AWC WITHOUT ADMITTING OR DENYING THE FINDINGS.

End of Report



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