

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9991 / December 16, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 76662 / December 16, 2015

INVESTMENT ADVISERS ACT OF 1940
Release No. 4293 / December 16, 2015

INVESTMENT COMPANY ACT OF 1940
Release No. 31942 / December 16, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-17005

In the Matter of

OWEN LI and
CANARSIE CAPITAL, LLC

Respondents.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(e), 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Owen Li (“Li”) and Canarsie Capital, LLC (“Canarsie” and, together with Li, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, Respondents admit the Commission’s jurisdiction over them and the subject matter of these proceedings, and consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

Summary

1. This proceeding involves fraud and breaches of fiduciary duty by Li and Canarsie from late 2012 to January 2015, which exposed the Canarsie Capital Fund Master, LP (the “Master Fund”) to the risk of significant loss and culminated in the depletion of virtually all of the Master Fund’s assets in January 2015. During that period, Li was a managing member of Canarsie, a New York-based, exempt reporting adviser, and he was the portfolio manager for the Master Fund, a pooled investment vehicle advised by Canarsie.

2. Beginning in late 2012, Li made false and misleading statements and omissions to investors and potential investors concerning his personal investment in the Canarsie Capital Fund, LP (the “Onshore Fund”) and omitted to inform them that he had depleted his personal assets through risky trading in his personal brokerage accounts. During 2014 and 2015, Li made false and misleading statements and omissions to investors concerning the Master Fund’s performance and delays in the Master Fund’s monthly performance reporting to conceal trading losses. During 2014 and 2015, Li reported fictitious trades and made other false and misleading statements and omissions to the Master Fund’s prime brokers to avoid margin calls and/or to increase margin extended to the Master Fund. During 2014 and January 2015, Li traded the Master Fund’s portfolio in ways that contravened the investment mandate in the Master Fund’s offering memorandum.

3. In January 2015, the Master Fund collapsed after Li moved virtually the entire portfolio into long, short-dated, market index options, nearly all of which were pegged to the same

¹ The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

expiration date of January 17, 2015. When the market moved against those positions on January 16, 2015, the Master Fund was left with approximately \$501,253 in cash, having started January 2015 with approximately \$58 million in assets.

Respondents

4. **Owen Li (“Li”)**, age 29 and a resident of Brooklyn, New York, is a principal and managing member of Canarsie, which Li founded in 2012. Immediately after graduating from college in 2008, Li worked as a trading assistant at Galleon Management, LP (“Galleon”). Following Galleon’s wind-down in 2009, Li worked as a trader for a registered investment adviser founded by a former Galleon colleague. Li left that adviser in early 2012 and formed Canarsie.

5. **Canarsie Capital, LLC (“Canarsie”)**, is a Delaware limited liability company with its principal place of business in New York, New York. Canarsie, an exempt reporting adviser, is 70% owned by Li, with the remaining 30% owned by Li’s two business partners (the “Partners”). Canarsie was the investment adviser for Canarsie Capital Fund Master, LP (the “Master Fund”), Canarsie Capital Fund, LP (the “Onshore Fund”) and Canarsie Capital Fund Offshore, Ltd. (the “Offshore Fund”) (collectively, the “Canarsie Funds”), and Canarsie had discretionary investment authority over the Canarsie Funds’ assets. On January 21, 2015, Canarsie terminated its investment management agreement with the Canarsie Funds, effective as of February 20, 2015.

Other Relevant Entities

6. **Canarsie Capital GP, LLC (“General Partner”)**, is a Delaware limited liability company that acts as the general partner of the Canarsie Funds. At all relevant times, Li was the managing member and controlling person of the General Partner. On January 21, 2015, the General Partner gave written notice of its resignation, which became effective on February 20, 2015.

7. **Canarsie Capital Fund Master, LP (the “Master Fund”)**, is a Cayman Islands exempted limited partnership formed in July 2013 as a “master-feeder” structure. The Master Fund has two limited partners, or feeder funds: the Onshore Fund and the Offshore Fund. The Master Fund paid Canarsie an annual management fee of 2% of its net assets, and a performance fee of 20% of the fund’s net income, subject to a high-water mark.

8. **Canarsie Capital Fund, LP (the “Onshore Fund”)**, is a Delaware limited partnership and pooled investment vehicle, which began offering limited partnership interests on January 1, 2013. The Onshore Fund does not have a board of directors or governance body. In August 2013, the Onshore Fund invested (and then continued to invest) substantially all of its assets in the Master Fund. At the time of the collapse in January 2015, the Onshore Fund had 41 investors.

9. **Canarsie Capital Fund Offshore, Ltd. (the “Offshore Fund”)**, is a Cayman Islands exempted company formed in August 2013 for the purpose of investing substantially all of

its assets in the Master Fund. The Offshore Fund has a board of directors comprised of Li and his two Partners. At the time of the collapse in January 2015, the Offshore Fund had 6 investors.

Background

10. In late 2012, Li and one of his Partners formed Canarsie and created the Onshore Fund, which launched in January 2013, with ten investors investing a total of \$16.55 million. In August 2013, the Master Fund and Offshore Fund were created, as part of a master-feeder structure, and the Onshore Fund's investments were invested in the Master Fund.

11. The Master Fund ended 2013 with a year-to-date performance return of 69%, and approximately \$47.75 million in assets under management (AUM). During 2013 and 2014, Canarsie earned \$1,032,532 in management fees. Li's portion of Canarsie's earned performance fees for 2013 was \$2,226,602, which he received. During 2014, Li earned \$120,000 in salary. The Master Fund ended 2014 with approximately \$58 million in AUM. When the Master Fund collapsed in January 2015, it had a total of 41 investors who, collectively and since the Fund's inception, had invested approximately \$52.1 million into the Master Fund.

Li Induced Investors to Invest in Canarsie Onshore Fund With Material Misrepresentations and Omissions

12. In or around late 2012, Li misled certain prospective investors about his own investment in the Onshore Fund. Specifically, Li falsely told at least three prospective investors—all of whom later invested—that Li was investing his own money in the Onshore Fund.² At the time, Li had virtually no personal assets, having lost nearly all of his earnings from his prior employer through his personal trading during 2012. Li did not inform any of the prospective investors about these losses.

13. In a meeting in December 2012, Li told one prospective investor that he would manage the Onshore Fund's long/short portfolio in a conservative manner, managing risk through hedging and using index options only to hedge positions—in other words, he would only rarely make directional bets using market index options. The following month, that prospective investor invested approximately \$7.5 million in the Onshore Fund.

14. The Canarsie Funds' offering memoranda ("Offering Memos") gave Canarsie broad discretion to trade a wide variety of securities and financial instruments, including options. The Offering Memos further stated, however, that the Master Fund's portfolio would be balanced, and that risk would be managed "through limits on position sizing and market exposure." Generally, no position, whether long or short, was to exceed 10% of the fund's assets. The Offering Memos stated that Canarsie "has internal controls in place to prevent trade errors from occurring." In the event of a trade error, the Offering Memos provided that Canarsie would use

² Li did not invest any of his own money into the Canarsie Funds until January 2014, when he invested \$527,843 of the performance fees he earned during 2013.

reasonable efforts to correct the error and would “endeavor to maintain a record of each trade error, including information about the trade and how such error was corrected or attempted to be corrected.”

15. Beginning in February 2014, Li began to build the Master Fund’s equity positions in Facebook, Groupon and IWM. By February 28, 2014, the Master Fund’s equity position in these three issuers respectively comprised 20%, 23% and 19% of the Master Fund’s total equity position. During March 2014, Li increased the Master Fund’s equity positions in Facebook and Groupon to 27% and 28% of total equity, respectively. These concentrated positions were inconsistent with the risk management guidelines in the Offering Memos and increased the risk of loss for the Master Fund and its investors.

Li Circumvented Canarsie’s Order Management System to Conceal Certain Trades from Others at Canarsie

16. During the relevant period, Canarsie used an internal order management system (“OMS”), supplied by an outside vendor. Canarsie used the OMS to internally track all trades made in the Onshore Fund’s and later, the Master Fund’s accounts, as well as the Canarsie Funds’ positions. Beginning in mid-2014, Canarsie began using the data in the OMS to calculate the Master Fund’s portfolio metrics. A Canarsie employee internally circulated daily “end of day” (“EOD”) emails detailing the Master Fund’s profit and loss, total number of trades that day, and calculations of gross and net portfolio exposure—all of which were derived from OMS data.

17. On multiple occasions from approximately April 2013 through January 2015, Li manually deleted certain trades from Canarsie’s OMS to conceal such trades from others at Canarsie.

18. In April 2013, an operations assistant who worked at Canarsie discovered a discrepancy between the Onshore Fund’s positions as reflected in Canarsie’s online prime brokerage account and as reflected in the OMS. The operations assistant demanded that Li begin copying him on all daily emails from brokers recapping trades so that he could confirm the Onshore Fund’s trading activity. The following week, on April 25, 2013, Li terminated the operations assistant.

19. Later, in December 2014 and January 2015, Li began purchasing large amounts of market index call options. Li reported these index options to Canarsie’s prime broker, but concealed the trades from others at Canarsie by intentionally not recording them into Canarsie’s OMS.

Li Reported Fictitious Trades and Made Misleading Statements and Omissions to Canarsie’s Prime Brokers to Avoid Margin Calls and to Obtain Additional Margin

20. In March and April 2014, Li began reporting fictitious “sell” trades to Canarsie’s prime broker at that time (“Prime Broker A”), as if Canarsie had executed these trades when, in fact, as Li knew, Canarsie had not. Specifically, during this time, Li engaged in a pattern of

reporting “sell” trades to Prime Broker A, and then subsequently cancelling the trades before they were to settle, which would otherwise have occurred three trading days later.

21. As Li knew, Prime Broker A calculated Canarsie’s margin requirement on a trade-date, and not a settlement-date, basis. Because Li cancelled the fictitious “sells” before their settlement dates, the actual size of the Master Fund’s positions was evident only on settlement date. Li’s pattern of reporting and then cancelling “sell” trades created the false appearance on the trade date that Canarsie’s long positions in certain stocks (and thus the margin in the account) were decreasing. This concealed risk in the portfolio, avoided a margin call from Prime Broker A, and permitted the Master Fund to avail itself of more margin from Prime Broker A than it otherwise would have extended to the Master Fund.

22. During March 2014, Li substantially increased the Master Fund’s leverage. On March 1, the Master Fund’s account at Prime Broker A had a margin balance of approximately \$41.6 million. On March 31 into the start of April, the Master Fund’s margin balance had increased to approximately \$377 million, which implies leverage in excess of 6 times.

23. On or around April 8-9, 2014, Li delayed reporting to Prime Broker A certain “buy” trades and certain market index exchange traded funds that had actually been executed (through brokers other than Prime Broker A). Had Li timely reported these trades, which were based on margin, on each trade execution date, Prime Broker A would have reduced the margin available to the Master Fund.

24. Li also made false and misleading statements to another of Canarsie’s prime brokers (“Prime Broker B”) regarding the existence of short positions in the Master Fund’s account. On October 14, 2014, Prime Broker B made a margin call of \$2,314,682 on the Master Fund’s account (approximately 3.7% of the Master Fund’s total assets). Li satisfied the margin call by transferring \$20 million from the Master Fund’s account at Prime Broker A to its account at Prime Broker B. Li falsely told Prime Broker B that all of the Master Fund’s hedging short positions were held at Prime Broker A. In fact, the Master Fund’s account at Prime Broker A had virtually no short positions at that time.

25. Li also intentionally misreported trades to Prime Broker B in efforts to forestall margin calls and create the false appearance that the account had less leverage than it did. On October 17, 2014, Prime Broker B informed Li that the portfolio had “illogical” positions. Li falsely told Prime Broker B that he had placed two “sell” trades with an executing broker, dated October 13, 2014 (one day before the margin call), but canceled them because, according to Li, the executing broker did not have delivery instructions for Prime Broker B, and had incorrectly delivered the trades to Prime Broker A. This had not occurred, which Li knew.

26. In December 2014 and again in January 2015, Prime Broker B’s risk managers contacted Li after observing heavy losses and high intra-day trading activity in the Master Fund’s account. In each instance, Li falsely told Prime Broker B that hedging positions existed at Prime Broker A and that he would transfer those positions to the Fund’s account at Prime Broker B to balance the portfolio. In fact, as Li knew, there were no hedging positions at Prime Broker A. At

this time, the only asset remaining in the account at Prime Broker A was approximately \$25,000 in cash.

27. On January 13-15, 2015, on seven separate occasions, Li intentionally misrepresented the price or the buy/sell terms of certain options trades reported to Prime Broker B. In each instance, Li knew Canarsie's trade reports contained false information. Li later corrected the trade reports. The purpose and effect of these "cancel/correct" trades was to temporarily obscure from Prime Broker B the true extent of leverage in the account, and to create the false appearance of a less risky portfolio.

At Prime Broker A's Insistence, Canarsie Retained a Consultant to Recommend Best Practices, But Failed to Implement the Recommendations

28. On or around April 9, 2014, Prime Broker A discovered that in March and early April 2014, on multiple occasions, Canarsie had reported certain trades in Facebook and certain other stocks that had not, in fact, been executed. On the morning of April 10, 2014, three senior managers from Prime Broker A visited Canarsie's offices to review the unusual pattern of trading by Li and to confirm all current positions in the account by verifying each trade with executing brokers. During this process, Prime Broker A learned that a certain executing broker had no knowledge of an order reported to Prime Broker A by Li and that certain other executing brokers had received "sell" limit orders from Li but had not yet confirmed execution of these orders by the time Li reported them to Prime Broker A. Li acknowledged to Prime Broker A that some of these reported sales were, in fact, only "sell" limit orders, and not executed trades.

29. On April 10, 2014, Prime Broker A instructed Li to begin liquidating positions to decrease the Master Fund's market risk and exposure and reduce leverage in the account. On April 10, the Master Fund sold approximately \$156 million worth of securities, including approximately \$70 million worth of Facebook stock. Prime Broker A also placed trading restrictions on Canarsie, requiring a reduction in exposure of the Master Fund, withdrawing all margin to Canarsie, and not permitting trades to be executed away from Prime Broker A.

30. On April 21, 2014, Prime Broker A sent a letter to Canarsie, stating that it was "imperative" that misreported trade activity from Canarsie not happen again and required Canarsie to, among other things, "hire an experienced control person who is independent of the trader and who can verify the activity in the trader's book compared to the activity reported by the brokers with whom you have executed trades" and "retain a consultant to review your processes and control (the results of which review you will also provide to us)." Prime Broker A also told Canarsie it would retain trading restrictions against Canarsie, e.g., no margin would be extended to Canarsie, day trades would not be permitted without sufficient capital set aside to fully cover the risk, no trades could be executed away from Prime Broker A, and options could only be exercised with capital set aside to cover the exercises in advance.

31. In or around late April 2014, at Prime Broker A's insistence, Canarsie hired a consultant (the "Consultant") to review the firm's procedures and recommend best practices. In May 2014, the Consultant issued best practice recommendations for Canarsie, including a policy

for trade reconciliations that required a trading assistant—independent of Li—to obtain, at the end of each trading day, trade execution data directly from Canarsie’s executing brokers, compare that data against the file that Canarsie planned to submit to its prime broker, reconcile any differences, and submit the trade file to the prime broker. The Consultant also recommended that Canarsie add at least one additional prime broker.

32. On May 14, 2014, Canarsie’s Chief Operating Officer and the Consultant met with senior management at Prime Broker A and presented a draft of the Consultant’s written report and best practice recommendations. Prime Broker A’s Chief Risk Officer informed them that Prime Broker A would not lift the previously-imposed margin and trading restrictions and that Prime Broker A expected Canarsie to transition to a new prime broker.

33. Canarsie failed to implement all of the Consultant’s best practice recommendations. For example, while Canarsie did eventually move to a new prime broker in fall 2014, once the new prime brokerage account was operational, Canarsie executed only closing transactions in the Prime Broker A account and eventually transferred all but \$25,000 of the account balance to the new prime broker; thus, Canarsie effectively never added a second prime broker.³ Notwithstanding the Consultant’s specific recommendations to do so, Canarsie also did not enhance monitoring of Li’s trading activities, implement intra-day trade reconciliations, develop procedures to address key person risk, or obtain compliance support.

34. Most significantly, Canarsie’s implementation of the Consultant’s recommended trade reconciliation process failed in several respects to achieve the objectives of segregating the trade reconciliation process from Li. The trading assistant depended on Li to show him executing broker trade confirmations, and the trading assistant had little or no independent communications with those executing brokers. Thus, there was no independent reconciliation of Li’s trade activity, and Li could and did conceal trades by omitting the trades from Canarsie’s OMS, concealing broker confirmations from the trading assistant, adding trades to the trade file after the trading assistant had finished his work but before submitting the trade file to the prime broker, and reconciling trade breaks himself.

***Li Made Material Misstatements and Omissions to Investors
About the Master Fund’s Performance***

35. At or around the end of each month, Li and his Partners prepared and sent emails to Onshore and Offshore Fund investors they each brought in, respectively, describing the Master Fund’s performance and containing an estimated NAV and monthly return. The estimated NAVs and monthly returns used in the emails, including emails sent by his Partners, were either supplied by Li or calculated by one of his Partners based upon data in the OMS.

³ On June 25, 2014, Li met with representatives of Prime Broker B to discuss establishing a prime brokerage relationship. Li did not inform Prime Broker B that Prime Broker A had terminated its relationship with Canarsie, the reasons for the breakdown of Canarsie’s relationship with Prime Broker A, or that Prime Broker A had withdrawn Canarsie’s margin.

36. After Li and his Partners had sent their emails to investors, the Canarsie Funds' administrator (the "Administrator") emailed each investor monthly account statements showing the actual value of their investment and the fund's NAV.

37. In two instances, the estimated NAV supplied by Li and emailed to investors differed materially from the Administrator's NAV, which appeared in the investors' monthly statements. In both instances, Li: (i) misrepresented the estimated NAV to investors; (ii) intentionally delayed the Administrator's release of the NAV to investors; and (iii) made statements he knew were false and misleading to investors and to his Partners to explain away the delayed NAVs and the discrepancies between the estimated NAV and the Administrator's NAV.

The April 2014 NAV

38. In April 2014, the Master Fund suffered significant losses from: (i) the forced liquidation of \$156 million worth of securities on April 10 by Prime Broker A; (ii) the trading restrictions imposed by Prime Broker A; and (iii) widespread volatility in the trading markets during April 2014. On April 30, 2014, the Master Fund had approximately \$46.5 million in AUM, having begun the month with approximately \$60.1 million in AUM, and the Master Fund's performance was down 23% from the beginning of April. On April 30, 2014, Li falsely told an investor that the performance was down 9%.

39. On May 16, 2014, the Administrator completed its calculation of the April NAV and sent it to Li for his review and approval. Li intentionally delayed approving the NAV because the Master Fund's performance—down 23%—was significantly worse than the NAV he had reported to investors at the end of April. On May 28, 2014, knowing that May's performance was better than April's, Li asked the Administrator to combine the reports for April and May to conceal the Master Fund's losses in April.

40. In late May, Li told his Partners, who were also directors of the Offshore Fund, and a few investors that the April statements were late because the Administrator was busy implementing a change in the NAV's calculation from monthly to daily. In fact, Li knew that the reason for the delayed April statements was because Li himself had delayed releasing the April NAV to the Administrator until May's performance results had been calculated.

41. On June 16, 2014, Li forwarded the Administrator's final reports for April and May to his Partners. The performance numbers for both months varied significantly from what Li had estimated at month-end. Li represented that the Master Fund's performance for April was down 9% and May was up 1%; the Administrator calculated that April was down 23% and May was up 10%. To explain these discrepancies, Li falsely told his Partners and investors that the performance numbers calculated by the Administrator did not take into account certain month-end trades which, due to delivery issues with certain executing brokers, were not settled until the following month. Li did not tell investors that the Master Fund's prime broker had withdrawn margin and imposed other trading restrictions starting in April, that the prime broker had forced the

Master Fund to liquidate approximately \$156 million in positions in a single day on April 10, or that the prime broker required Canarsie to move its business to a new prime broker.

42. On July 14, 2014, in an email sent to a prospective investor, Li falsely understated the extent of losses in March and April, stating that the Master Fund was down 15% in that time period. In fact, as Li knew, the Master Fund was down 9.3% in March and 23% in April; in other words, the Master Fund was down 32% during that time period. Li also falsely told that prospective investor that Canarsie was adding a second prime broker for “security” purposes, in light of how difficult the market had been to trade.

The November 2014 NAV

43. On November 28, 2014, market movements caused losses in several of the Master Fund’s positions. That day, Li placed three trades with executing brokers and intentionally misreported the same trades to Prime Broker B. Also on November 28, Li emailed a certain investor that the month’s performance return was +1.5%. The following day, Li informed another investor that the Master Fund was up 1% for the month.

44. On the following trading day, December 1, Prime Broker B contacted Li concerning the three trade breaks that had resulted from Li’s trading the prior day. Li resolved the trade breaks by cancelling two trades and reporting the third to Prime Broker B to match the way the executing broker had reported the trade.

45. On December 9, 2014, the Administrator sent a preliminary NAV calculation to Li for his review. The next day, Li asked the Administrator to calculate the November NAV using the prime broker’s month-end report and to disregard the trade cancellations made by Li on December 1. The Administrator refused, telling Li that it would not be considered a best practice or consistent with Generally Accepted Accounting Principles to disregard the corrected trades in calculating the November NAV.

46. During December 2014 and through January 8, 2015, despite repeated inquiries from the Administrator, Li delayed approving the November NAV. Li finally approved Master Fund’s November NAV on January 8, 2015. During December 2014 and early January 2015, Li falsely told certain investors that the November 2014 statements were late because of staffing changes at the Administrator and the Administrator’s focus on preparing for the Canarsie Funds’ annual audit.

47. On January 9, 2015, Li instructed the Administrator to release the November 2014 statements to investors. Li forwarded the statements to his Partners, informing them that the November 2014 performance result was worse than the estimate they had provided to investors. Li falsely told his Partners that the reason was because the NAV did not include residual funds which Li had transferred from Prime Broker A to Prime Broker B on November 28, 2014 and which, according to Li, were not credited to the account at Prime Broker B until December.

Li Caused Catastrophic Losses in the Master Fund Through Risky Options Trading

48. During December 2014 and January 2015, Li concealed from investors the fact that he traded the Master Fund in contravention of the investment mandates in the Canarsie Funds' Offering Memos and that, in doing so, he had placed the Master Fund at excessive risk of catastrophic loss. Li did so by concealing his trading from Canarsie's trading assistant, who continued to circulate daily "end of day" ("EOD") emails to Li and his Partners with the Master Fund's daily performance and trading information. As a result, the performance and trading information in the Trading Assistant's EOD emails falsely represented the state of the Master Fund's portfolio.

49. During December 2014, by trading equity and options, Li reduced the Master Fund's cash position from approximately \$21.3 million as of November 30, 2014 to a negative \$12 million by December 31, 2014. As of December 31, 2014, the Master Fund had long positions of approximately \$71.8 million and short positions of approximately \$2.7 million. In contravention of the investment mandate of a portfolio of global publicly-traded equities and the risk management guidelines set forth in the Canarsie Funds' Offering Memos, the Master Fund's short positions comprised only 3.8% of the total portfolio. At year end, 81.7% of the Master Fund's portfolio was comprised of equity and 18.3% was comprised of options. The Master Fund's net equity at year-end 2014 was approximately \$58 million.

50. Beginning in the first week of January 2015, Li began liquidating the Master Fund's long positions. By January 16, all the Master Fund's equity long positions had been liquidated and the Master Fund had incurred approximately \$18 million in losses on equity trades.

51. Beginning on or around December 31, 2014 and continuing through January 15, 2015, Li used cash in the account and proceeds from stock sales to buy long positions in market index options. Virtually all of these purchases were in long call options with an expiration date of January 17—in other words, short-dated long options. At the same time, Li took down and eventually eliminated all short positions in the account. The result was an entirely long portfolio with no hedge.

52. On January 16, the market for index options moved against Canarsie's positions, resulting in losses of approximately \$39 million (approximately \$28 million in expired premium and approximately \$10.5 million in trading losses), leaving the Master Fund with no equity, short or options positions, and only \$211,685 in cash (plus approximately \$289,568 in its bank account). As a result of Li's risky trading, Li caused the Master Fund to incur approximately \$56.5 million in losses between December 31, 2014 and January 16, 2015, substantially depleting all of the Master Fund's assets.

53. On January 20, 2015, the first business day following January 16, Li sent a letter to all investors stating:

I am writing to express my extreme sorrow and deep regret for engaging in a series of transactions over the last several weeks that have resulted in the loss of all but two hundred

thousand dollars of the Fund's capital. In an attempt to recover losses that the Fund suffered in December, I engaged in a series of aggressive transactions over the last three weeks that—generally speaking—involved options with strike prices pegged to the broader market increasing in value, but also involved some direct positions. Unfortunately, these positions rapidly declined in value over the past two weeks as the market struggled—and I was unable to mitigate the Fund's losses.

Violations

54. As a result of the conduct described above, Respondents willfully violated Section 17(a) of the Securities Act, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer or sale of securities and in connection with the purchase or sale of securities.

55. As a result of the conduct described above, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act by employing devices, schemes or artifices to defraud clients, or engaging in transactions, practices or courses of business that defrauded clients or prospective clients, or which operated as a fraud or deceit upon clients or prospective clients.

56. As a result of the conduct described above, Respondents willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which prohibit an investment adviser from engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative; and prohibit any investment adviser to a pooled investment vehicle from making any untrue statement of a material fact or omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investors or prospective investor in the pooled investment vehicle; or otherwise engaging in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Sections 203(e), 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondents Li and Canarsie cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 promulgated thereunder.

B. Respondent Canarsie is censured.

C. Respondent Li be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

D. Any reapplication for association by Respondent Li will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Respondent Li, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

E. Respondents Li and Canarsie shall pay, on a joint and several basis, disgorgement of \$3,379,134 and prejudgment interest of \$115,804 to the Securities and Exchange Commission. This disgorgement and prejudgment interest obligation shall be deemed satisfied by the restitution order in *United States v. Li*, a parallel criminal action filed in the United States District Court for the Southern District of New York, provided that Respondent Li pleads guilty and does not withdraw his guilty plea in *U.S. v. Li*. In the event Respondent Li withdraws his guilty plea in *U.S. v. Li*, he and Canarsie shall be liable, on a joint and several basis, for the full amount of disgorgement of \$3,379,134, prejudgment interest of \$115,804, plus any accrued interest pursuant to SEC Rule of Practice 600.

V.

It is further Ordered that, for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary