

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

- - - - - x

UNITED STATES OF AMERICA :

- v. - :

INFORMATION

OWEN LI, :

15 Cr.

Defendant. :

- - - - - x

COUNT ONE  
(Securities Fraud)

The United States Attorney charges:

Background

1. At all relevant times, Canarsie Capital, LLC ("Canarsie"), was a Delaware limited-liability company with its principal place of business in New York, New York. Canarsie was owned jointly by OWEN LI, the defendant, and others. Canarsie was the investment manager of 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 "Funds"), and had discretionary investment authority over the Funds' assets. As described below, the Funds collapsed in or about January 2015.

2. At all relevant times, OWEN LI, the defendant, was Canarsie's managing member and had control of Canarsie's

operations. LI solicited investments and was Canarsie's de facto portfolio manager and principal trader.

3. According to the Master Fund's offering memorandum (the "Offering Memorandum"), which was provided to investors, the investment objective was "generat[ing] high risk-adjusted returns over time with limited volatility." The Offering Memorandum gave Canarsie broad discretion to trade a wide variety of securities and financial instruments, including options. Canarsie could use index or "market basket" options "to hedge against certain market related risks, as the Investment Manager [i.e., Canarsie] deems appropriate."

4. The Offering Memorandum further stated that the 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, would exceed 10% of the Master Fund's assets. The Offering Memorandum also stated that Canarsie "has internal controls in place to prevent trade errors from occurring." According to the Offering Memorandum, in the event that a trade error might occur, Canarsie would use reasonable efforts to correct the error and "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."

5. OWEN LI, the defendant, launched the Onshore Fund in or about January 2013 with approximately 10 investors and approximately \$16.55 million in assets under management. In or about August 2013, LI moved the Onshore Fund's investments into the Master Fund. The Master Fund ended 2013 with approximately \$47.75 million in assets under management.

6. In or about 2013, OWEN LI, the defendant, earned a performance allocation of approximately \$2,226,602 -- his total compensation that year. Of that, LI deposited approximately \$527,843 in the Master Fund as a personal investment. Prior to in or about January 2014, LI did not have a personal stake in the Funds.

7. During in or about 2014, OWEN LI, the defendant, raised approximately \$16.8 million from new and existing investors. At the time of the Funds' collapse in or about January 2015, the Funds had approximately 41 investors who collectively had invested approximately \$56.8 million in capital.

#### The Scheme to Defraud

##### LI Reported Fictitious Trades to His Prime Broker

8. During the relevant period, Canarsie reported the Master Fund's trades daily to its prime broker. At the end of each trading day, the prime broker would match Canarsie's trade report against trade reports submitted by executing brokers who

had filled Canarsie's orders that day. Mismatches of information concerning trades reported by Canarsie and the executing brokers were considered "trade breaks."

9. In or about March and early April 2014, OWEN LI, the defendant, began reporting fictitious "sell" trades to Canarsie's prime broker at that time ("Prime Broker-1") as if Canarsie had executed the trades, when, in fact and as LI knew, Canarsie had never actually sold the shares in question. On or about April 9, 2014, Prime Broker-1 discovered multiple instances from in or about March and early April 2014 in which LI had caused Canarsie to report trades which had not in fact been executed. Specifically, Prime Broker-1 noted that LI had engaged in a pattern of reporting sell trades to Prime Broker-1, and subsequently canceling the sell trades before the settlement date. Prime Broker-1 noted that such trade breaks were concentrated in shares of Facebook, Inc. ("Facebook"), but also occurred in other stocks.

10. On or about April 10, 2014, OWEN LI, the defendant -- in response to a question regarding Canarsie's purported sale of 2.4 million shares of Facebook reported by Canarsie on or about April 7 or 8, 2014 -- acknowledged to representatives of Prime Broker-1 that the purported trades were in fact only "sell" orders, not executed trades. LI falsely

claimed that he had not realized that he was not supposed to report unfilled orders to Prime Broker-1 as executed trades.

11. As OWEN LI, the defendant, knew, Prime Broker-1 calculated Canarsie's margin requirement on the basis of trade date, not settlement date. Because the fictitious sell orders were never settled, the size of the Master Fund's true long positions in Facebook and other stocks was evident only on a settlement-date basis. LI's pattern of booking and cancelling "sell" trades created the false appearance, albeit temporarily, that the long positions in Facebook and other stocks (and thus the leverage in the account) were diminishing. This allowed Canarsie to (a) avoid a margin call from Prime Broker-1, and (b) avail itself of greater leverage than Prime Broker-1 ordinarily would have extended to Canarsie.

12. As a result of the actions of OWEN LI, the defendant, the Master Fund's leverage increased significantly. On or about March 1, 2014, the Master Fund's account had a margin balance of approximately \$41.6 million. On or about March 31, 2014, the margin balance had increased to approximately \$377 million. Therefore, on or about April 1, 2014, the Master Fund's account was levered approximately eight times, in that it was employing approximately \$377 million of margin with equity of approximately \$45 million. In addition, LI had accumulated a position in Facebook that exceeded 10% of

the Master Fund's total portfolio, in violation of the risk-management parameters set forth in the Offering Memorandum.

13. In light of the trade breaks discussed in paragraph 9, above, Prime Broker-1 encouraged Canarsie to hire a consultant to devise practices to avoid similar trade breaks in the future. Prime Broker-1 also forbid Canarsie from using margin and insisted that Canarsie hire a second prime broker, suggesting that eventually the second prime broker would become Canarsie's sole prime broker in lieu of Prime Broker-1.

LI Made False Statements to a Prospective Prime Broker

14. On or about June 25, 2014, OWEN LI, the defendant, and others at Canarsie met with representatives of a prospective prime broker ("Prime Broker-2"). At the meeting, LI stated that he wanted to add an additional prime broker because (a) it would give Canarsie access to liquidity, and (b) LI was planning to market Canarsie and wanted to have an additional counterparty. LI did not inform representatives of Prime Broker-2 that (a) Prime Broker-1 had told Canarsie to find a second prime broker, (b) Prime Broker-1 had withdrawn margin, and (c) if Canarsie established a relationship with Prime Broker-2, Prime Broker-2 would be, in essence, the sole prime broker for Canarsie.

15. In or about August 2014, Canarsie established a prime brokerage account with Prime Broker-2. On or about

September 30, 2014, OWEN LI, the defendant, transferred approximately \$25 million from the Prime Broker-1 account to the new Prime Broker-2 account, and began trading in the Prime Broker-2 account shortly thereafter. From that point on, no new positions were opened in the Prime Broker-1 account and virtually all of the portfolio trading occurred in the Prime Broker-2 account.

LI's Misstatements to Investors About Canarsie's Performance

16. At all relevant times, at or around the end of each month, OWEN LI, the defendant, and others prepared and sent emails to Canarsie's investors describing the Master Fund's performance. Those emails contained an estimated net asset value ("NAV") and monthly return. LI supplied the estimated NAV and monthly return to be used in the emails, including emails sent by others at Canarsie.

17. At all relevant times, Canarsie's administrator (the "Administrator") emailed each investor a monthly account statement showing the value of his or her investment and the Master Fund's NAV. Investors typically received a monthly statement from the Administrator after the email from OWEN LI, the defendant (or other Canarsie representative).

18. As described below, on at least two occasions, the estimated NAV supplied by OWEN LI, the defendant, and emailed to investors by Canarsie differed materially from the

Administrator's NAV, which appeared in the investors' monthly statements. In both instances, LI (a) intentionally misrepresented the estimated NAV to investors, (b) intentionally delayed the Administrator's release of the NAV to investors, and (c) made statements he knew were false and misleading to investors and others at Canarsie to explain the delayed NAVs and the discrepancies between his estimated NAV and the Administrator's NAV.

LI Misrepresented the April 2014 NAV

19. In or about April 2014, the Master Fund suffered approximately \$13.6 million in losses and was down approximately 23% from the beginning of the month. However, on or about April 30, 2014, OWEN LI, the defendant, falsely told at least one investor that performance was down only nine percent.

20. On or about May 16, 2014, the Administrator completed the calculation of the April NAV and sent it to OWEN LI, the defendant, for his review and approval. Between on or about April 16 and in or about early June 2014, the Administrator repeatedly asked LI to approve the April reports so that the Administrator could finalize them.

21. OWEN LI, the defendant, intentionally delayed approving the reports because the Master Fund's performance -- down approximately 23% -- was significantly worse than the NAV he had reported to investors at the end of April. On or about



May 28, 2014, LI asked the Administrator to combine the reports for April and May. In or about late May 2014, LI falsely told at least two investors that the April statements were late because Canarsie was moving to a daily, rather than a monthly, NAV.

22. On or about June 16, 2014, OWEN LI, the defendant, forwarded the Administrator's final reports for April and May to others at Canarsie. The performance numbers for both months varied significantly from what LI had reported to investors at the end of those months. Specifically, LI had represented that April's performance was down eight or nine percent, but the Administrator calculated April's performance as down 23%. LI had represented that May's performance was up one percent, but the Administrator calculated actual May performance to be up 10%.

23. To explain these discrepancies, OWEN LI, the defendant, falsely told others at Canarsie that the performance numbers calculated by the Administrator did not take into account certain month-end trades which, due to delivery issues with brokers who did not clear with Prime Broker-1, were not settled until the next month.

24. On or about June 17, 2014, OWEN LI, the defendant, and others at Canarsie sent an email to investors

falsely explaining these discrepancies, based on the false reasons supplied by LI.

25. On or about July 14, 2014, in an email sent to a prospective investor, OWEN LI, the defendant, falsely understated the extent of losses in March and April 2014, stating that the Master Fund was down 15% in that time period, when, in fact, and as LI knew, the Master Fund was down approximately 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.

LI Misrepresented and Attempted to  
Fraudulently Increase the November 2014 NAV

26. On or about November 28, 2014, market movements in several positions caused losses for the Master Fund. On or about that same day, OWEN LI, the defendant, placed three trades with executing brokers but intentionally misreported those trades to Prime Broker-2. In doing so, LI intentionally created trades he knew would break, since he knew the information he reported to Prime Broker-2 would not match the information reported by the executing brokers.

27. On or about December 1, 2014, representatives of Prime Broker-2 contacted OWEN LI, the defendant, and another employee of Canarsie. LI told Prime Broker-2's representatives

that they should communicate only with him regarding the trade breaks. Shortly thereafter on or about December 1, LI resolved the trade breaks by cancelling two trades and rebooking the third.

28. On or about December 9, 2014, the Administrator sent a preliminary November NAV to OWEN LI, the defendant, for his review. On or about the next day, December 10, LI asked the Administrator to (a) recalculate the November NAV using Prime Broker-2's month-end report, and (b) disregard LI's December 1 trade cancellations. The Administrator refused, telling LI that it would not be considered a best practice or consistent with Generally Accepted Accounting Principles to disregard the amended trades. Over the next few days, LI persisted with his request, but the Administrator refused to disregard the December 1 trade cancellations in calculating the November NAV.

29. From in or about December 2014 up to and including on or about January 8, 2015, despite repeated requests from the Administrator, OWEN LI, the defendant, delayed approving the November NAV. To justify the delay, LI falsely told the Administrator, among other things, that he had been in the hospital for a week. When LI finally approved the November NAV, he instructed the Administrator to send the statements only to him. From in or about December 2014 through on or about January 8, 2015, LI falsely told investors who inquired about

the November statements that they were late because of staffing changes at the Administrator and the Administrator's focus on preparing for the annual audit.

30. In or about late December 2014 and early January 2015, OWEN LI, the defendant, informed the Administrator, one investor, and one Canarsie employee ("Employee-1") that he intended to wind down the Master Fund over the next few weeks. However, LI concealed his intention to close the Master Fund from others at Canarsie and other investors.

31. On or about January 9, 2015, OWEN LI, the defendant, instructed the Administrator to release the November 2014 statements to investors. LI forwarded the statements to others at Canarsie, informing them that the Master Fund's November 2014 performance had been worse than the estimate Canarsie had provided to investors. LI falsely told others at Canarsie that the discrepancy was due to a residual amount of money transferred from Canarsie's account at Prime Broker-1 to the account at Prime Broker-2 on or about November 28, 2014, which was not credited to the account at Prime Broker-2 until December 2014.

LI Misled the SEC Examination Staff

32. On November 5, 2014, members of the U.S. Securities and Exchange Commission's Office of Compliance Inspections and Examinations Staff (the "Examination Staff")

conducted a phone interview of OWEN LI, the defendant, and others at Canarsie, who were in Manhattan, New York. Among other things, the Examination Staff asked why Canarsie appeared to be moving away from Prime Broker-1 as its prime broker, and conducting virtually all trading activity with Prime Broker-2. LI responded that he had contacts at Prime Broker-2 from his prior employment and certain harder-to-cover stocks were easier to locate through Prime Broker-2 than through Prime Broker-1. LI concealed from the Examination Staff that Prime Broker-1 (a) had withheld margin from Canarsie in or about April and May 2014, and (b) suggested that Canarsie move its prime brokerage relationship elsewhere.

33. On or about December 3, 2014, the Examination Staff interviewed OWEN LI, the defendant, in Manhattan, New York, and asked about the Facebook trades cancelled in or about April 2014. LI responded that he had assumed that the brokers executed those orders, and had reported those trades to Prime Broker-1 as executed trades based on that assumption. In fact, LI never placed or transmitted those orders to executing brokers. LI concealed from the Examination Staff that he had fraudulently reported those trades as executions to Prime Broker-2 in an effort to conceal the extent of leverage in the Master Fund and the size of the position in Facebook.

LI Causes Catastrophic Losses in the Master Fund

34. In or about December 2014 and January 2015, OWEN LI, the defendant, concealed from investors and others at Canarsie the fact that he was trading the Master Fund in violation of the investment mandates in the Offering Memorandum and that, in doing so, he had placed the Master Fund at excessive risk of catastrophic loss. LI hid the full extent of his trading from Employee-1, who circulated daily emails to LI and others at Canarsie outlining the Master Fund's daily performance information. Unbeknownst to Employee-1, LI was engaged in trading activity that he did not provide to Employee-1 and, as a result, the performance and trading information in Employee-1's daily emails misrepresented the true condition of the Master Fund's portfolio.

35. The Master Fund's net account value on or about December 31, 2014 was approximately \$59.7 million. Beginning in or about early January 2015, OWEN LI, the defendant, began liquidating the equity long positions in the account -- resulting in approximately \$18 million in losses -- and eliminated all short positions in the Master Fund. At the same time, LI bought short-dated long positions in market index options. The result was an entirely long, unhedged portfolio.

36. On or about January 16, 2015, index options prices moved against Canarsie's positions, resulting in losses

of approximately \$39 million. At the end of the day on January 16, the account was left with no equity, short, or options positions. As a result of trading by OWEN LI, the defendant, the Master Fund lost substantially all of its assets between on or about December 31, 2014 and on or about January 16, 2015.

#### Statutory Allegation

37. From at least in or about March 2014 through in or about January 2015, in the Southern District of New York and elsewhere, OWEN LI, the defendant, willfully and knowingly, directly and indirectly, by the use of means and instrumentalities of interstate commerce, the mails and the facilities of national securities exchanges, in connection with the purchase and sale of securities, used and employed manipulative and deceptive devices and contrivances, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing devices, schemes and artifices to defraud; (b) making untrue statements of material fact and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices and courses of business which operated and would operate as a fraud and deceit upon persons, to wit, LI engaged in a scheme to defraud investors in connection with the purchase and sale of securities, by (a) making material misrepresentations regarding

the performance of the Master Fund; and (b) failing to disclose to investors that he was trading outside the parameters set forth in the Offering Memorandum.

(Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5.)

**COUNT TWO**

**(Material False Statement to SEC Examination Staff)**

The United States Attorney further charges:

38. The allegations contained in paragraphs 1 through 36 of this Information are hereby repeated, realleged, and incorporated by reference as if fully set forth herein.

39. On or about December 3, 2014, in the Southern District of New York, OWEN LI, the defendant, in a matter within the jurisdiction of the executive branch of the Government of the United States, knowingly and willfully made a materially false, fictitious, and fraudulent statement and representation, to wit, LI -- in response to the SEC Examination Staff's questions regarding Facebook trades cancelled in or about April 2014 -- falsely told the SEC Examination Staff that he had assumed that the brokers executed those orders, and had reported those trades to Prime Broker-1 as executed trades based on that assumption, when in fact, as he well knew, LI had never placed or transmitted those orders to executing brokers.

(Title 18, United States Code, Section 1001(a)(2).)



FORFEITURE ALLEGATION AS TO COUNT ONE

40. As the result of committing the offense alleged in Count One of this Information, OWEN LI, the defendant, shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C), and Title 28, United States Code, Section 2461, any and all property, real and personal, which constitutes or is derived from proceeds traceable to the commission of such offense, including, but not limited to, a sum of United States currency equal to at least \$690,000 in United States currency, representing the amount of proceeds obtained as a result of the offense charged in Count One of the Information, and all right, title and interest in the following specific property:

a. any and all funds on deposit in account number 496719498, held in the name of Canarsie Capital Fund Master L.P., at JPMorgan Chase Bank, N.A.;

b. any and all funds on deposit in account number 038CDJMF8, held in the name of Canarsie Capital Fund Master L.P., at Morgan Stanley; and

c. any and all funds on deposit in account number 002-58427-4, held in the name of Canarsie Capital Fund Master L.P., at Goldman, Sachs & Co.

Substitute Asset Provision

41. If any of the above-described forfeitable property, as a result of any act or omission of OWEN LI, the defendant,

a. cannot be located upon the exercise of due diligence;

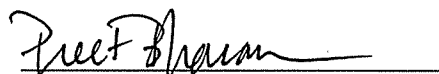
b. has been transferred or sold to, or deposited with, a third party;

c. has been placed beyond the jurisdiction of the Court;

d. has been substantially diminished in value; or

e. has been commingled with other property which cannot be subdivided without difficulty, it is the intent of the United States, pursuant to Title 18, United States Code, Section 982(b), Title 21, United States Code, Section 853(p), and Title 28, United States Code, Section 2461(c), to seek forfeiture of any other property of LI up to the value of the above forfeitable property.

(Title 18, United States Code, Sections 981 and 982;  
Title 21, United States Code, Section 853;  
Title 28, United States Code, Section 2461.)

  
PREET BHARARA  
United States Attorney

---

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

---

UNITED STATES OF AMERICA

- v. -

OWEN LI,

Defendant.

---

INFORMATION

15 Cr.

(15 U.S.C. §§ 78j(b) & 78ff; 17 C.F.R.  
§ 240.10b-5; 18 U.S.C. § 1001(a)(2))

PREET BHARARA

United States Attorney

---

---