

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2016051493702**

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

RE: Harold Lee Connell, Respondent  
CEO and President CP Capital Securities, Inc.  
General Securities Representative and General Securities Principal  
CRD No. 1482623

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, I, Harold Lee Connell ("Connell" or "Respondent") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

Connell entered the securities industry in 1992, and obtained the following securities licenses in 1992 and 1993: Series 7, Series 52, Series 53, Series 63 and Series 24. During the period 1992 to 2000, Connell was consecutively registered with FINRA through four different FINRA-regulated broker-dealers.

In January 2001, Connell founded CP Capital Securities, Inc. and registered the firm as a FINRA regulated broker-dealer (BD No. 1529) ("CP Securities" or the "Firm"). He was then registered with FINRA through that Firm. Connell held 99% ownership of the Firm. From August 5, 2013 forward, Connell served as the Firm's President, Chief Executive Officer ("CEO") and Series 24 licensed principal supervisor. The Firm had one office in Miami, Florida. It had approximately 10 registered representatives, approximately 200 accounts and a net capital requirement of \$5,000.

The Firm filed a Broker Dealer Withdrawal on April 10, 2017. It was later expelled by FINRA in July 2017 for failure to pay in full an AWC fine of \$70,000 for failing to supervise minimum contingency unregistered offerings.

Connell has not been registered with FINRA since the Firm's expulsion. He remains subject to FINRA's jurisdiction pursuant to Article V, Section 4 of FINRA's By-Laws.

### **RELEVANT DISCIPLINARY HISTORY**

In August 2007, FINRA fined Connell \$5,000 and suspended him for 30 days pursuant to an AWC for failing to disclose on his Uniform Notice of Securities Industry Registration (Form U4) a civil law suit alleging that he violated Florida securities statutes.

In February 2006, the State of Florida fined Connell \$5,000 and entered a cease and desist order against him pursuant to a stipulation and consent agreement, for his failure to maintain books and records, and failure to supervise the Firm.

### **OVERVIEW**

From January 2013 to April 2017, (the "Relevant Period") Connell and others at the Firm raised over \$4.5 million from individual investors in connection with the sale of three unregistered Regulation D offerings. The Firm was the exclusive placement agent for the three raises, and two of its registered representatives raised all the funds. None of the investors recouped any of their principal investments.

The private placement memorandums ("PPMs") for the three offerings provided that investors' funds would be used to make investments in a variety of companies. However, in May 2014, the first offering was invested 85% in one penny stock company. The other two offerings were primarily undisclosed self-offerings: investors' funds were transferred to the Firm's holding company, and from there, to the Firm. The third offering's PPM did not disclose that the companies that received their funds, the Firm and its holding company, were deeply in debt. The third offering's PPM also did not disclose that investor funds would be used to pay non-Firm expenses and money owed to prior offering investors.

By participating in the sale of the offerings through misrepresentations and omissions, Connell willfully violated Section 10(b) of the Securities Exchange Act of 1934 (the "SEA"), SEA Rule 10b-5 promulgated thereunder, and FINRA Rules 2020 and 2010. Connell also violated FINRA Rules 2111 and 2010 which prohibit the sales of securities without a reasonable basis to believe that they are suitable for any investor. Finally, by failing to reasonably supervise the registered and associated persons involved in the sales of these products and the management of the funds obtained from customers, he violated NASD Rule 3010 (for conduct before December 1, 2014) and FINRA Rules 3110 (for conduct on and after December 1, 2014) and 2010.

## **FACTS AND VIOLATIVE CONDUCT**

### **The Offerings and the Notes**

The first offering at issue in this matter was by CP US Income LLC (“CP US Income” or the “First Offering”), and it raised \$2,225,000 from May 15, 2013 to December 31, 2013. The second offering, by CP Capital Venture LLC (“CP Venture I” or “Second Offering”), overlapped with the First Offering, and raised \$1,457,000 from October 1, 2013 to October 31, 2015. Only one Firm registered representative, JR, sold these two offerings. The third offering, by CP Capital Venture II LLC (“CP Venture II” or “Third Offering”), overlapped the Second Offering and raised \$823,000 from March 13, 2015 to February 1, 2016. JR also sold the Third Offering, along with one other registered representative of the Firm, AL.

From August 2013, Connell was the CEO, President, principal supervisor and owner of CP Securities, which was the three private offerings’ exclusive placement agent. CP US Income, CP Venture I and CP Venture II were affiliated with each other and with CP Securities through Connell’s common ownership. CP Capital Group LLC (“CP Group”) was owned 99% by Connell. CP Group was fifty percent owner of CP US Income along with 50% owner Red Creek LLC and 99% owner of CP Venture I and CP Venture II. CP Securities was owned 88% by Connell and 11% by CP Group.

#### **1. Misrepresentations, Omissions**

Section 10(b) of the SEA prohibits the use of “any manipulative or deceptive device or contrivance” in connection with the purchase or sale of a security. SEA Rule 10b-5 explains that the prohibition includes making any untrue statement or omission of a material fact.

FINRA Rule 2020 is similar to SEA Rule 10b-5. It provides that a member may not “effect any transaction in or induce the purchase or sale of any security by any manipulative, deceptive or other fraudulent device or contrivance.”

Violations of FINRA Rule 2020, SEA Section 10(b) and SEA Rule 10b-5, constitute a separate violation of FINRA Rule 2010, which requires registered representatives “to observe high standards of commercial honor and just and equitable principals of trade.”

When untrue statements and omissions of material facts are intentionally or recklessly made in PPMs, these constitute violations of paragraph (b) of SEA Rule 10b-5. Here, Connell participated in the drafting of the PPMs for all three offerings, was on the three-person investment committee that chose the funds’ destinations and authorized fund distributions for the Offerings. Further, Connell was ultimately responsible for everything that transpired in and through the Firm. The customers’ funds were not invested as described in the PPMs.

The PPMs for the First and Second Offerings stated that funds raised would be invested in a “diverse basket of investments.” Instead, in May 2014, approximately 85% of the US Income investors’ funds were invested in one company. That one company was a risky penny stock company. Most of the funds raised in CP Venture I, unbeknownst to the investors, were

transferred to CP Group and then infused into CP Securities to pay for the Firm's expansion into Latin America and other Firm expenses. Thus, the investors' funds were not invested in a "diverse basket of investments" as stated in the PPMs.

The PPM for the Third Offering provided that funds would be diversified and might be invested in affiliated companies. The PPM for the Third Offering did not disclose that the affiliated companies that received the investors' money, CP Securities and CP Group, were deeply in debt to the Second Offering investors at the time of the offering. The investments were not diversified as stated in the PPM. Unbeknownst to the investors, almost all of their funds were transferred to the Firm and CP Group, in order to service the debt to prior investors and pay for other on-going Firm, and non-Firm expenses.

By reason of the foregoing, during the Relevant Period, Connell willfully violated Section 10(b) of the SEA, Rule 10b-5 thereunder and FINRA Rules 2020 and 2010 through reckless misstatements and omissions made in connection with the Offerings and the three promissory notes.

## **2. Lack of Suitability**

FINRA Rule 2111(a) requires associated people to have a reasonable basis to believe based on reasonable diligence, that a recommended transaction or investment strategy is suitable for the customer.

The Supplementary Material to FINRA Rule 2111 requires associated people "to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors." A recommendation may lack a reasonable-basis if the associated person: (i) fails to understand the transaction, which can result from, among other things, a failure to conduct a reasonable investigation concerning the security; or (ii) recommends a security that is not suitable for any investors.

CP Capital sold the three Offerings that raised a total of \$4,505,000 from 19 customers.

The First Offering was not suitable for any investors because appropriate due diligence was not performed on the product, and contrary to the representations in the PPM, the customers' funds were invested in one penny stock, rather than a diverse basket of investments. The Second and Third Offerings were not suitable for any investors because they raised money for the CP Group and the Firm, entities that at the time were deeply in debt and had no viable secure assets to use to repay its investors. Also, contrary to the representations in the Second and Third Offerings' PPMs, the Offerings' funds were not invested in a diverse basket of investments. Connell should not have permitted the marketing or sale of these products.

By reason of the foregoing, during the Relevant Period, Connell violated FINRA Rules 2111 and 2010.

## **3. Failure to Supervise**

FINRA Rule 3110(a) requires member firms to establish and maintain a system to supervise the

activities of each associated person that is reasonably designated to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules. Individuals who fail to reasonably exercise their supervisory responsibilities violate Rule 3110.

As the CEO, President and owner of the Firm, and the direct Series 24 licensed supervisor of JR, GC and AL, Connell was required to reasonably supervise their activities, which included investigating red flags and acting upon the results of such investigation. However, Connell failed to reasonably supervise JR and AL in connection with the three offerings, and failed to reasonable supervise GC in connection with his activities as an associated person.

JR and AL had extensive contacts with their customers in Spanish. In fact, JR, AL and most of their investors were native Spanish speakers. Connell did not speak or understand Spanish. Nevertheless, Connell did not obtain translations into English of Spanish correspondence between the Firm representatives and the customers, nor did he participate with a translator in any discussions with the Spanish-speaking customers at the point of sale. He did not take effective action to ensure that he adequately monitored customer contact with the registered representatives he supervised to verify that appropriate representations were being made to investors regarding the offerings for which Connell's Firm was the sole placement agent.

GC was an associated person at the Firm, but was not licensed by FINRA. Despite GC's dual role as co-manager of CP US Income and manager of CP Venture I and CP Venture II on the one hand, and as an associated person of CP Securities on the other hand, Connell did not take effective action to ensure that GC did not engage in activities requiring registration.

In addition, Connell allowed JR to hold himself out as a director of the Firm's Latin American business and to supervise registered representatives when Connell knew that JR did not have a General Securities Principal license.

As a result of the foregoing conduct, during the Relevant Period, Connell violated NASD Rule 3010 ((for his conduct before December 1, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014) and FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

- a bar from association with any FINRA member in any capacity.

The bar shall become effective upon approval or acceptance of this AWC.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

I understand that this settlement includes a finding that I willfully violated Section 10(b)

of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and FINRA Rules 2020 and that under Article III, Section 4 of FINRA's By-Laws, this makes me subject to a statutory disqualification with respect to association with a member.

I understand that this settlement includes a finding that I failed to supervise an individual who violated Section 10(b) of SEA Rule 10b-5 promulgated thereunder and that under Article III, Section 4 of FINRA's By-Laws, this makes me subject to a statutory disqualification with respect to association with a member.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

## **III.**

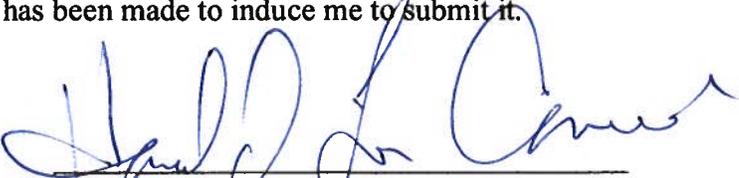
### **OTHER MATTERS**

I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
  2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
  3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
  4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

I, Harold Lee Connell, certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I understand and acknowledge that FINRA does not represent or advise me and I cannot rely on FINRA or FINRA staff members for legal advice; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

04 / 17 / 2018  
Date (mm/dd/yyyy)

  
Respondent Harold Lee Connell

