

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION**

**Securities and Exchange
Commission,**

Plaintiff,

v.

Salvadore D. Palermo,

Defendants.

Civil Action No. _____

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff Securities and Exchange Commission (“SEC” or “Commission”) files this Complaint and alleges as follows:

OVERVIEW

1. Defendant Salvadore D. Palermo (“Defendant” or “Palermo”), a former fixed income trader for J.P. Turner, L.L.C. (“J.P. Turner”), a now-defunct broker-dealer formerly registered with the Commission, knowingly entered a series of fictitious sales of certain financial instruments which resulted in J.P. Turner’s creating and maintaining inaccurate financial books, records and reports.

2. Specifically, between at least August 2014 and March 2015, Palermo entered certain fictitious sales orders in J.P. Turner's books, records and electronic trading systems despite knowing that the named counterparty/purchaser had never agreed to buy the instruments and that each sales order would ultimately be cancelled with the instruments being returned to J.P. Turner's inventory.

3. Palermo created these sham sales to temporarily remove the instruments from J.P. Turner's inventory in order to appear to comply with J.P. Turner's internal inventory policy, which strictly limited the dollar amount of fixed income inventory that could be held at month end and at other times intra-month.

4. As a result of these sham transactions, J.P. Turner made and maintained inaccurate trading and financial books and records, and filed with the Commission inaccurate Financial and Operational Combined Uniform Single ("FOCUS") Reports, which contain certain financial and operational information for the firm, for each month between at least August 2014 and February 2015, all of which violated of Section 17(a) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 17a-3 and 17a-5 thereunder.

5. Palermo aided and abetted these violations by J.P. Turner.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to Sections 20 and 21 of the Exchange Act, to enjoin Defendant from engaging in the transactions, acts, practices, and courses of business alleged in this Complaint, and transactions, acts, practices, and courses of business of similar purport and object, for civil penalties and for other equitable relief.

7. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act.

8. Defendant, directly, and indirectly, made use of the mails, the means and instruments of transportation and communication in interstate commerce and the means and instrumentalities of interstate commerce in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

9. Venue lies in this Court because Defendant Palermo was and is a resident of this District, including during the time period between August 2014 and April 2015, and a substantial part of the events or omissions giving rise to the violations of the Exchange Act occurred within this District.

DEFENDANT AND RELEVANT ENTITY

10. Defendant Palermo has resided within this District for several years, including between August 2014 and April 2015. Palermo worked for J.P. Turner from February 2003 until his termination in July 2015, spending the last five years

of that time as a fixed income trader. Prior to his employment at J.P. Turner, Palermo worked for several broker-dealers, and he has held Series 7, 24 (principal), and 63 licenses since the 1980s.

11. J.P. Turner was a Georgia limited liability company with its principal place of business in Atlanta, Georgia. J.P. Turner was privately owned from 1997 until June 2014 when it was acquired by RCS Capital Corporation, which thereafter filed for bankruptcy in 2015. J.P. Turner was registered with the Commission as a broker-dealer until April 4, 2016, when its withdrawal Form BDW (filed earlier in February 2016) became effective. The firm is no longer operational.

BACKGROUND

12. In 2003, Palermo joined J.P. Turner as a registered representative, after being employed for seventeen years in the Atlanta area with several different broker-dealers.

13. In approximately 2010, after seven years of managing a retail book of business, Palermo transitioned to J.P. Turner's fixed income desk as a trader. In this position Palermo serviced the fixed income product requirements of J.P. Turner's registered representatives and their customers by locating and trading with third-party buyers and sellers of fixed income products.

14. As a fixed income trader, Palermo frequently worked with a certain J.P. Turner registered representative (“Broker”) who regularly invested clients in a fixed income financial instrument called a market-linked certificate of deposit (“MLCD”).

15. MLCDs are Federal Deposit Insurance Corporation (“FDIC”) insured certificates of deposit that tie their rate of return to the performance of one or more securities or market indexes, such as bond indexes, the Dow Jones Industrial Average or the Standard & Poor’s 500 Index. MLCDs can be attractive to investors due to the possibility of higher returns than traditional CDs, while providing some “principal protection” for the original deposit amount via FDIC insurance. However, MLCDs are riskier than traditional CDs due to their longer maturity (generally from five to twenty years), limited secondary market and exposure to market downturns (which may result in little to no investment return at maturity).

16. Palermo would routinely buy and sell MLCDs and other fixed income products on the behalf of Broker and other registered representatives at J.P. Turner. Palermo would utilize J.P. Turner’s fixed income desk trading accounts to temporarily maintain positions in these products. However, because the fixed income desk did not conduct proprietary trading (i.e. trading for its own profit),

and to avoid market risk due to long term positions in fixed income financial products, J.P. Turner internal policy placed strict limits on how much inventory Palermo and the fixed income desk could hold in its accounts without authorization by management. During 2014 and 2015, J.P. Turner required that the fixed income inventory accounts be at zero at each month-end and not exceed approximately \$2 to \$4 million at any point during each month (again, subject to authorization by management) .

**PALERMO PURCHASES AND HOLDS
MLCDs IN J.P. TURNER'S INVENTORY**

17. Beginning in approximately 2013, and continuing into 2014 and 2015, several of Broker's customers sought to sell certain MLCDs held in their accounts prior to maturity. However, the prevailing market price of the instruments was often significantly below par amount, which would result in a loss to these customers upon sale.

18. To avoid such losses, Broker reached out to Palermo for assistance. Frequently, Palermo would agree to repurchase the MLCD at par value and hold them in J.P. Turner's fixed income inventory account. Then, Palermo would seek to sell the MLCDs from the fixed income inventory to a third party at a price at or near par to avoid losses in the fixed income account.

19. Although Palermo was occasionally able to sell the MLCDs at or near par value, locating a purchaser and completing a trade often took time and required Palermo to maintain multi-million dollar MLCD positions in the J.P. Turner fixed inventory account for weeks and in some cases months.

PALERMO ENTERED FICTITIOUS SALES TO TEMPORARILY REMOVE MLCDs FROM J.P. TURNER'S INVENTORY ACCOUNT

20. Beginning in approximately August 2014, this time delay required Palermo to hold MLCD positions for longer periods of time (sometimes as long as several months), substantially increasing J.P. Turner's fixed income inventory position.

21. In order to comply with J.P. Turner's limits on fixed income inventory, while avoiding a loss due to market sales of the MLCD positions, for each month-end from August 2014 through March 2015, and on several occasions intra-month during that same period, Palermo entered fictitious sales of MLCDs from the firm's inventory.

22. For each of these fictitious sales, Palermo named a large third-party broker-dealer as counterparty (without their knowledge) ("Purchaser"), and set the purchase price at par value (to avoid recording a loss). By entering these trades, Palermo was able to fraudulently remove the oversized MLCD inventory to comply with J.P. Turner's inventory restrictions, while avoiding selling the

inventory at a loss. Although the removal of the inventory was temporary, as the fictitious sales would ultimately be rejected by Purchaser and taken back into J.P. Turner's fixed income inventory, this process would take a few days' time. This delay allowed Palermo to comply with the strict month-end inventory limitations (which did not allow any inventory to be held) and recover the inventory intra-month when J.P. Turner's policy allowed for several million dollars' worth of inventory holdings.

23. By way of example, on Friday, February 27, 2015 at 4:10 p.m. the last business day of the month, Palermo entered the following four sales of MLCs with Purchaser as the purported counterparty:

- \$1,334,000 of Citibank MLCs at 100 (par);
- \$380,000 of United Community Bank MLCs at 100 (par);
- \$1,105,000 of Citibank MLCs at 100 (par); and
- \$620,000 of United Community Bank MLCs at 100 (par).

24. By entering these four sales, Palermo removed \$3.44 million of inventory from the J.P. Turner's fixed income inventory at month end.

25. In early March 2015, following J.P. Turner's clearing firm advising that the trades had not been "recognized" or accepted by Purchaser, Palermo

cancelled the trades, with the \$3.44 million of MLCD inventory returned to the J.P. Turner fixed income inventory.

26. In some cases Palermo issued fictitious sales for the same instrument numerous times, while effectively holding the instrument for several months.

27. In total, Palermo entered 48 fictitious sales totaling over \$24 million between August 2014 and March 2015.

28. Palermo's fictitious sales resulted in errors to J.P. Turner's books, records and reports from at least August 2014 to April 2015, including the creation and maintaining of inaccurate trade blotters, misstated asset and revenue account balances, and the filing of inaccurate FOCUS Reports with the Commission.

29. In July 2015, J.P. Turner terminated Palermo's employment noting on his Form U5: "Engaged in structured product transactions for the apparent purpose of concealing inventory positions."

COUNT I

AIDING AND ABETTING VIOLATIONS OF SECTION 17(a)(1) OF THE EXCHANGE ACT [15 U.S.C. § 78Q(a)(1)] AND RULES 17a-3 AND 17a-5 [17 CFR §§ 240.17a-3 AND 17a-5] THEREUNDER.

30. Paragraphs 1 through 29 are hereby realleged and incorporated herein by reference.

31. J.P. Turner, due to the improper removal from inventory of certain MLCs by Palermo between August 2014 and April 2015, violated Section 17(a)(1) of the Exchange Act and Rules 17a-3 and 17a-5 thereunder by failing to make and keep the required accurate blotters, ledgers and trial balances, including records pertaining to its asset and revenue account balances and further filed inaccurate FOCUS Reports.

32. By his conduct, Palermo knowingly or recklessly provided substantial assistance to J.P. Turner's violations of the Exchange Act, including the foregoing failures.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully prays that the Court:

I.

Make findings of fact and conclusions of law in accordance with Rule 52 of the Federal Rules of Civil Procedure.

II.

Permanently enjoin Defendant, directly or indirectly, and his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the order by personal service or otherwise, and each of them

from aiding and abetting violations of, directly or indirectly, Section 17(a) of the Exchange Act and Rules 17a-3 and 17a-5 thereunder.

III.

Issue an Order pursuant to Section 21(d)(3) of the Exchange Act, imposing civil monetary penalties.

IV.

Issue an Order that retains jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may have been entered or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

V.

Grant such other and further relief as may be necessary and appropriate.

This 6th day of August, 2018.

RESPECTFULLY SUBMITTED,

/s/M. Graham Loomis
M. Graham Loomis
Regional Trial Counsel
Georgia Bar No. 457868
loomism@sec.gov

Paul Kim
Senior Trial Counsel
Georgia Bar No. 418841
kimpau@sec.gov

COUNSEL FOR PLAINTIFF
U.S. SECURITIES AND EXCHANGE COMMISSION
950 East Paces Ferry Road, N.E., Suite 900
Atlanta, Georgia 30326
(404) 842-7600

JS44 (Rev. 6/2017 NDGA)

CIVIL COVER SHEET

The JS44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form is required for the use of the Clerk of Court for the purpose of initiating the civil docket record. (SEE INSTRUCTIONS ATTACHED)

I. (a) PLAINTIFF(S)

Securities and Exchange Commission

DEFENDANT(S)

Salvadore D. Palermo

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF _____
(EXCEPT IN U.S. PLAINTIFF CASES)

COUNTY OF RESIDENCE OF FIRST LISTED DEFENDANT Fulton
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED

(c) ATTORNEYS (FIRM NAME, ADDRESS, TELEPHONE NUMBER, AND E-MAIL ADDRESS)

M. Graham Loomis, Esq.
U.S. Securities and Exchange Commission
950 East Paces Ferry Road NE, Suite 900
Atlanta, Georgia 30326
(404) 842-7600; loomism@sec.gov

ATTORNEYS (IF KNOWN)

II. BASIS OF JURISDICTION

(PLACE AN "X" IN ONE BOX ONLY)

- 1 U.S. GOVERNMENT PLAINTIFF
 2 U.S. GOVERNMENT DEFENDANT
 3 FEDERAL QUESTION (U.S. GOVERNMENT NOT A PARTY)
 4 DIVERSITY (INDICATE CITIZENSHIP OF PARTIES IN ITEM III)

III. CITIZENSHIP OF PRINCIPAL PARTIES

(PLACE AN "X" IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)
(FOR DIVERSITY CASES ONLY)

- | | | | | | |
|----------------------------|----------------------------|---|----------------------------|----------------------------|---|
| PLF | DEF | | PLF | DEF | |
| <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | CITIZEN OF THIS STATE | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 | INCORPORATED OR PRINCIPAL PLACE OF BUSINESS IN THIS STATE |
| <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | CITIZEN OF ANOTHER STATE | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 | INCORPORATED AND PRINCIPAL PLACE OF BUSINESS IN ANOTHER STATE |
| <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | CITIZEN OR SUBJECT OF A FOREIGN COUNTRY | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 | FOREIGN NATION |

IV. ORIGIN

(PLACE AN "X" IN ONE BOX ONLY)

- 1 ORIGINAL PROCEEDING
 2 REMOVED FROM STATE COURT
 3 REMANDED FROM APPELLATE COURT
 4 REINSTATED OR REOPENED
 5 TRANSFERRED FROM ANOTHER DISTRICT (Specify District)
 6 MULTIDISTRICT LITIGATION - TRANSFER
 7 APPEAL TO DISTRICT JUDGE FROM MAGISTRATE JUDGE JUDGMENT
 8 MULTIDISTRICT LITIGATION - DIRECT FILE

V. CAUSE OF ACTION

(CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE A BRIEF STATEMENT OF CAUSE - DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY)

Violation of Section 17(a) of the Securities Exchange Act of 1934 and Rules 17a-3 and 17a-5 thereunder.

(IF COMPLEX, CHECK REASON BELOW)

- | | |
|---|---|
| <input type="checkbox"/> 1. Unusually large number of parties. | <input type="checkbox"/> 6. Problems locating or preserving evidence |
| <input type="checkbox"/> 2. Unusually large number of claims or defenses. | <input type="checkbox"/> 7. Pending parallel investigations or actions by government. |
| <input type="checkbox"/> 3. Factual issues are exceptionally complex | <input type="checkbox"/> 8. Multiple use of experts. |
| <input type="checkbox"/> 4. Greater than normal volume of evidence. | <input type="checkbox"/> 9. Need for discovery outside United States boundaries. |
| <input type="checkbox"/> 5. Extended discovery period is needed. | <input type="checkbox"/> 10. Existence of highly technical issues and proof. |

CONTINUED ON REVERSE

FOR OFFICE USE ONLY

RECEIPT # _____ AMOUNT \$ _____ APPLYING IFP _____ MAG. JUDGE (IFP) _____
 JUDGE _____ MAG. JUDGE _____ (Referral) _____ NATURE OF SUIT _____ CAUSE OF ACTION _____

VI. NATURE OF SUIT (PLACE AN "X" IN ONE BOX ONLY)

CONTRACT - "0" MONTHS DISCOVERY TRACK

- 150 RECOVERY OF OVERPAYMENT & ENFORCEMENT OF JUDGMENT
- 152 RECOVERY OF DEFAULTED STUDENT LOANS (Excl. Veterans)
- 153 RECOVERY OF OVERPAYMENT OF VETERAN'S BENEFITS

CONTRACT - "4" MONTHS DISCOVERY TRACK

- 110 INSURANCE
- 120 MARINE
- 130 MILLER ACT
- 140 NEGOTIABLE INSTRUMENT
- 151 MEDICARE ACT
- 160 STOCKHOLDERS' SUITS
- 190 OTHER CONTRACT
- 195 CONTRACT PRODUCT LIABILITY
- 196 FRANCHISE

REAL PROPERTY - "4" MONTHS DISCOVERY TRACK

- 210 LAND CONDEMNATION
- 220 FORECLOSURE
- 230 RENT LEASE & EJECTMENT
- 240 TORTS TO LAND
- 245 TORT PRODUCT LIABILITY
- 290 ALL OTHER REAL PROPERTY

TORTS - PERSONAL INJURY - "4" MONTHS DISCOVERY TRACK

- 310 AIRPLANE
- 315 AIRPLANE PRODUCT LIABILITY
- 320 ASSAULT, LIBEL & SLANDER
- 330 FEDERAL EMPLOYERS' LIABILITY
- 340 MARINE
- 345 MARINE PRODUCT LIABILITY
- 350 MOTOR VEHICLE
- 355 MOTOR VEHICLE PRODUCT LIABILITY
- 360 OTHER PERSONAL INJURY
- 362 PERSONAL INJURY - MEDICAL MALPRACTICE
- 365 PERSONAL INJURY - PRODUCT LIABILITY
- 367 PERSONAL INJURY - HEALTH CARE/ PHARMACEUTICAL PRODUCT LIABILITY
- 368 ASBESTOS PERSONAL INJURY PRODUCT LIABILITY

TORTS - PERSONAL PROPERTY - "4" MONTHS DISCOVERY TRACK

- 370 OTHER FRAUD
- 371 TRUTH IN LENDING
- 380 OTHER PERSONAL PROPERTY DAMAGE
- 385 PROPERTY DAMAGE PRODUCT LIABILITY

BANKRUPTCY - "0" MONTHS DISCOVERY TRACK

- 422 APPEAL 28 USC 158
- 423 WITHDRAWAL 28 USC 157

CIVIL RIGHTS - "4" MONTHS DISCOVERY TRACK

- 440 OTHER CIVIL RIGHTS
- 441 VOTING
- 442 EMPLOYMENT
- 443 HOUSING/ ACCOMMODATIONS
- 445 AMERICANS with DISABILITIES - Employment
- 446 AMERICANS with DISABILITIES - Other
- 448 EDUCATION

IMMIGRATION - "0" MONTHS DISCOVERY TRACK

- 462 NATURALIZATION APPLICATION
- 465 OTHER IMMIGRATION ACTIONS

PRISONER PETITIONS - "0" MONTHS DISCOVERY TRACK

- 463 HABEAS CORPUS- Alien Detainee
- 510 MOTIONS TO VACATE SENTENCE
- 530 HABEAS CORPUS
- 535 HABEAS CORPUS DEATH PENALTY
- 540 MANDAMUS & OTHER
- 550 CIVIL RIGHTS - Filed Pro se
- 555 PRISON CONDITION(S) - Filed Pro se
- 560 CIVIL DETAINEE: CONDITIONS OF CONFINEMENT

PRISONER PETITIONS - "4" MONTHS DISCOVERY TRACK

- 550 CIVIL RIGHTS - Filed by Counsel
- 555 PRISON CONDITION(S) - Filed by Counsel

FORFEITURE/PENALTY - "4" MONTHS DISCOVERY TRACK

- 625 DRUG RELATED SEIZURE OF PROPERTY 21 USC 881
- 690 OTHER

LABOR - "4" MONTHS DISCOVERY TRACK

- 710 FAIR LABOR STANDARDS ACT
- 720 LABOR/MGMT. RELATIONS
- 740 RAILWAY LABOR ACT
- 751 FAMILY AND MEDICAL LEAVE ACT
- 790 OTHER LABOR LITIGATION
- 791 EMPL. RET. INC. SECURITY ACT

PROPERTY RIGHTS - "4" MONTHS DISCOVERY TRACK

- 820 COPYRIGHTS
- 840 TRADEMARK

PROPERTY RIGHTS - "8" MONTHS DISCOVERY TRACK

- 830 PATENT
- 835 PATENT-ABBREVIATED NEW DRUG APPLICATIONS (ANDA) - a/k/a Hatch-Waxman cases

SOCIAL SECURITY - "0" MONTHS DISCOVERY TRACK

- 861 HIA (1395f)
- 862 BLACK LUNG (923)
- 863 DIWC (405(g))
- 863 DIWW (405(g))
- 864 SSID TITLE XVI
- 865 RSI (405(g))

FEDERAL TAX SUITS - "4" MONTHS DISCOVERY TRACK

- 870 TAXES (U.S. Plaintiff or Defendant)
- 871 IRS - THIRD PARTY 26 USC 7609

OTHER STATUTES - "4" MONTHS DISCOVERY TRACK

- 375 FALSE CLAIMS ACT
- 376 Qui Tam 31 USC 3729(a)
- 400 STATE REAPPORTIONMENT
- 430 BANKS AND BANKING
- 450 COMMERCE/ICC RATES/ETC.
- 460 DEPORTATION
- 470 RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS
- 480 CONSUMER CREDIT
- 490 CABLE/SATELLITE TV
- 890 OTHER STATUTORY ACTIONS
- 891 AGRICULTURAL ACTS
- 893 ENVIRONMENTAL MATTERS
- 895 FREEDOM OF INFORMATION ACT
- 899 ADMINISTRATIVE PROCEDURES ACT / REVIEW OR APPEAL OF AGENCY DECISION
- 950 CONSTITUTIONALITY OF STATE STATUTES

OTHER STATUTES - "8" MONTHS DISCOVERY TRACK

- 410 ANTI TRUST
- 850 SECURITIES / COMMODITIES / EXCHANGE

OTHER STATUTES - "0" MONTHS DISCOVERY TRACK

- 896 ARBITRATION (Confirm / Vacate / Order / Modify)

*** PLEASE NOTE DISCOVERY TRACK FOR EACH CASE TYPE. SEE LOCAL RULE 26.3**

VII. REQUESTED IN COMPLAINT:

CHECK IF CLASS ACTION UNDER F.R.Civ.P. 23 DEMAND \$ _____

JURY DEMAND YES NO (CHECK YES ONLY IF DEMANDED IN COMPLAINT)

VIII. RELATED/REFILED CASE(S) IF ANY

JUDGE _____ DOCKET NO. _____

CIVIL CASES ARE DEEMED RELATED IF THE PENDING CASE INVOLVES: (CHECK APPROPRIATE BOX)

- 1. PROPERTY INCLUDED IN AN EARLIER NUMBERED PENDING SUIT.
- 2. SAME ISSUE OF FACT OR ARISES OUT OF THE SAME EVENT OR TRANSACTION INCLUDED IN AN EARLIER NUMBERED PENDING SUIT.
- 3. VALIDITY OR INFRINGEMENT OF THE SAME PATENT, COPYRIGHT OR TRADEMARK INCLUDED IN AN EARLIER NUMBERED PENDING SUIT.
- 4. APPEALS ARISING OUT OF THE SAME BANKRUPTCY CASE AND ANY CASE RELATED THERETO WHICH HAVE BEEN DECIDED BY THE SAME BANKRUPTCY JUDGE.
- 5. REPETITIVE CASES FILED BY PRO SE LITIGANTS.
- 6. COMPANION OR RELATED CASE TO CASE(S) BEING SIMULTANEOUSLY FILED (INCLUDE ABBREVIATED STYLE OF OTHER CASE(S)):

7. EITHER SAME OR ALL OF THE PARTIES AND ISSUES IN THIS CASE WERE PREVIOUSLY INVOLVED IN CASE NO. _____, WHICH WAS DISMISSED. This case IS IS NOT (check one box) SUBSTANTIALLY THE SAME CASE.

M. G. [Signature]

8/6/18

SIGNATURE OF ATTORNEY OF RECORD

DATE