

SEC Charges Virgin Islands-Based Investment Adviser with Defrauding Clients

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Washington, D.C., Feb. 21, 2013 — The Securities and Exchange Commission today charged an investment adviser located in the U.S. Virgin Islands with defrauding clients from whom he withheld the fact that he was receiving kickbacks for investing their money in thinly-traded companies. When he faced pressure to pay clients their returns on those investments, he allegedly used money from other clients in a Ponzi-like fashion to make payments.

The SEC's Enforcement Division alleges that James S. Tagliaferri, through his St. Thomas-based firm TAG Virgin Islands, routinely used his discretionary authority over the accounts of his clients to purchase promissory notes issued by particular private companies. In exchange for financing those companies, TAG received millions of dollars in cash and other compensation — a conflict of interest that was never disclosed to investors. The Enforcement Division further alleges that when the promissory notes neared or passed maturity and his clients demanded payment, Tagliaferri misused assets of other clients to meet those demands.

"Tagliaferri was anything but forthcoming with his clients and he repeatedly failed to act in their best interests," said Andrew M. Calamari, Director of the SEC's New York Regional Office. "He didn't tell them about the compensation he received from the companies they were financing, and then compounded his fraud by using client assets to pay other clients when the conflicted investments came due."

In a parallel action, the U.S. Attorney's Office for the Southern District of New York today announced criminal charges against Tagliaferri.

According to the SEC's order instituting administrative proceedings, Tagliaferri invested TAG clients primarily in conservative and liquid investments such as municipal bonds and blue-chip stocks until around 2007, when he began investing clients in highly illiquid securities. These investments included promissory notes issued by various closely-held private companies that were nothing more than holding companies through which an individual and his family effected personal and business transactions. He also invested at least \$40 million of clients' money in notes of a private horse-racing company, International Equine Acquisitions Holdings, Inc.

According to the SEC's order, TAG received more than \$3.35 million and approximately 500,000 shares of stock of a microcap company in return for placing various investments with these companies. The compensation that TAG received from the companies for the investments that Tagliaferri made on behalf of his clients created a conflict of interest that he was required to disclose to investors.

The SEC's Enforcement Division alleges that Tagliaferri then further defrauded clients by investing their funds in microcap and other thinly-traded public companies in order to raise at least \$80 million to pay the interest or principal due to other clients on certain of the promissory notes. Tagliaferri explained in e-mails he sent in April 2010 to the individual behind the companies that the real motivation for investing TAG clients in one of his microcap companies was to use the proceeds to pay off other clients invested in the initial series of promissory notes. *"Where is the \$125MM. As you are aware, this money was earmarked to clear all of the notes and other issues facing us both,"* Tagliaferri wrote. He later added, the *"shares you transferred are being sold to clients. With those*

proceeds, you're buying back your own notes." TAG clients were unaware, however, that Tagliaferri's true motivation for having them buy these stocks was to repay other TAG clients on other conflicted investments he had made for them.

According to the SEC's order, Tagliaferri willfully violated Sections 17(a)(1) and (3) of the Securities Act of 1933, Sections 10(b) and 15(a) of the Securities Exchange Act of 1934 and Rules 10b-5 thereunder, and Sections 206(1), 206(2) and 206(3) of the Investment Advisers Act of 1940.

The SEC's investigation, which is continuing, was conducted by Leslie Kazon, Saima S. Ahmed, and Christopher Ferrante of the New York Regional Office. The litigation will be led by Ms. Ahmed and Nancy Brown. The SEC thanks the U.S. Attorney's Office for the Southern District of New York, the U.S. Postal Inspection Service, and the Financial Industry Regulatory Authority (FINRA) for their assistance in this matter.

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Related Materials

- [SEC Order](#)