

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

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REGISTRATION & DISCLOSURE

Department of Enforcement,

Complainant,

v.

Rene F. Palacios (CRD No. 3188994),

Respondent.

DISCIPLINARY PROCEEDING
No. 2007011375301

HEARING OFFICER-

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Rene Palacios ("Palacios" or "Respondent") was a registered representative associated with member firm Oriental Financial Services Corp. ("Oriental" or the "Firm") in Puerto Rico. Palacios was terminated by Oriental in November 2007 after Oriental discovered, and Palacios admitted, that Palacios had misused \$62,750 of customer funds when he transferred \$62,750 from that customer's brokerage account to a fraudulent bank account that he had opened in the name of that customer without authorization, and then repeatedly forged the customer's signature on, among other documents, checks issued from the fraudulent bank account, so as to misuse the customer's funds.

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2. Palacios was sent two letters pursuant to NASD Rule 8210 requesting his appearance at an on-the-record interview ("OTR") to discuss the circumstances surrounding his termination from Oriental. Palacios failed to appear for the scheduled OTRs.
3. Palacios' conduct violates NASD Conduct Rules 2330(a) and 2110, and NASD Procedural Rule 8210.

Respondent and Jurisdiction

4. Between December 1998 and November 2007, Palacios was associated with various FINRA member firms, the most recent being Oriental. Palacios obtained his Series 7 license in September 2000. On November 30, 2007, Oriental filed a Form U5 on behalf of Palacios, terminating his association with Oriental as of that date. Palacios is not currently associated with any FINRA member firm but is still within the jurisdiction of FINRA pursuant to Article V, Section 4 of FINRA's By-Laws. Jurisdiction over Palacios expires on November 29, 2009, which is two years after the date that Palacios was last associated with a FINRA member firm.

FIRST CAUSE OF ACTION

Misuse of Customer Funds

Violation of NASD Conduct Rules 2330(a) and 2110

5. The Department realleges and incorporates by reference paragraphs 1-4, above.
6. In November 2007, Oriental customer JL complained to Oriental's banking affiliate (the "Affiliate"), where he was also a customer, that he had recently received a bank statement for a checking account he had never opened at the Affiliate.
7. The fraudulent bank account at issue was opened at an Affiliate branch in Puerto Rico on June 15, 2007. The fraudulent bank account was funded by a deposit of \$62,750.

8. The source of the funds deposited into the fraudulent bank account was a brokerage account maintained by JL at Oriental. Palacios was the registered representative for JL's brokerage account.
9. On June 19, 2007, Palacios forged JL's signature and issued a check in the amount of \$51,033.25 from the fraudulent bank account, payable to WR. The June 19 check was deposited into an account belonging to WR at the Affiliate. WR is Palacios' brother-in-law.
10. On July 1, 2007, Palacios forged JL's signature and issued another check from the fraudulent bank account in the amount of \$2,751. The July 1 check was payable to MR, Palacios' wife. The check was deposited into an account belonging to Palacios and his wife at the Affiliate.
11. On July 20, 2007, Palacios forged JL's signature and issued another check from the fraudulent bank account in the amount of \$8,000. The July 20 check was payable to another bank. The Affiliate was able to trace the check to the payment of a credit card issued by the other bank to Palacios.
12. On August 8, 2007, Palacios forged JL's signature and issued another check from the fraudulent bank account in the amount of \$1,008. The August 8 check was payable to MR, Palacios' wife, and was deposited into the account Palacios maintained with his wife at the Affiliate.
13. Palacios opened the fraudulent bank account in JL's name without JL's authorization and forged JL's signature on the new account documents in connection with opening the fraudulent account.

14. Palacios then transferred the \$62,750 in funds from JL's brokerage account into the fraudulent bank account.
15. Palacios forged JL's signature on the June 19, July 1, July 20 and August 8, 2007, checks in connection with his misuse of JL's funds.
16. As a result of the foregoing, Palacios violated NASD Conduct Rules 2330(a) and 2110.

SECOND CAUSE OF ACTION
Forgery
Violation of NASD Conduct Rule 2110

17. The Department realleges and incorporates by reference paragraphs 1-16, above.
18. On or about June 15, 2007, Palacios forged the signature of customer JL in connection with opening a fraudulent bank account at the Affiliate in the name of JL. Palacios subsequently caused the transfer of \$62,750 from JL's brokerage account to the fraudulent bank account.
19. On or about June 19, 2007, Palacios forged the signature of JL on a check drawn from the fraudulent bank account in the amount of \$51,033.25. The June 19 check was payable to WR and was deposited into an account belonging to WR at the Affiliate.
20. On July 1, 2007, Palacios forged the signature of JL on a check drawn from the fraudulent bank account in the amount of \$2,751. The July 1 check was payable to MR, Palacios' wife. The July 1 check was deposited into an account belonging to Palacios and his wife at the Affiliate.
21. On July 20, 2007, Palacios forged the signature of JL on a check drawn from the fraudulent bank account in the amount of \$8,000. The July 20 check was payable to

another bank. The Affiliate was able to trace the check to the payment of a credit card issue by the other bank to Palacios.

22. On August 8, 2007, Palacios forged the signature of JL on a check drawn from the fraudulent bank account in the amount of \$1,008. The August 8 check was payable to MR, Palacios' wife, and was deposited into an account belonging to Palacios and his wife at the Affiliate.

23. As a result of the foregoing, Palacios violated NASD Conduct Rule 2110.

THIRD CAUSE OF ACTION

Failure to Appear for an On-the-Record Interview

Violation of NASD Procedural Rule 8210

24. The Department realleges and incorporates by reference paragraphs 1-23, above.

25. On October 8, 2008, FINRA staff sent Palacios a letter, pursuant to NASD Rule 8210, requesting his appearance at an on-the-record interview ("OTR") scheduled for November 12, 2008. The October 8 letter was sent to Palacios at his CRD residential address via first class and certified mail. The letter sent via first class mail was returned stamped "Undeliverable as Addressed." The letter sent via certified mail was returned stamped "Unclaimed." Palacios failed to appear for the scheduled OTR and never contacted FINRA staff to request that the OTR be re-scheduled.

26. On December 5, 2008, FINRA staff sent Palacios a second letter pursuant to NASD Rule 8210 requesting his appearance at an OTR scheduled for December 18, 2008. The December 5 letter was sent to Palacios at his CRD residential address of record via first class and certified mail. The letter sent via first class mail was returned stamped "Undeliverable as Addressed." The letter sent via certified mail was

returned stamped "Unclaimed." Palacios failed to appear for the scheduled OTR and never contacted the staff to request that the OTR be re-scheduled.

27. FINRA staff has no actual knowledge of any address for Palacios other than his CRD residential address of record.

28. As a result of the foregoing, Palacios violated NASD Procedural Rule 8210 and NASD Conduct Rule 2110.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that the Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- B. order that the Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: June 2, 2009



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