

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

GEL DIRECT TRUST,
GEL DIRECT, LLC,
JEFFREY K. GALVANI,
STUART A. JEFFERY,

Defendants.

Civ. Action No. 1:22-cv-09803

JURY TRIAL DEMANDED

COMPLAINT

Plaintiff Securities and Exchange Commission (“SEC”) files this Complaint against GEL Direct Trust (“GEL”), GEL Direct, LLC (“GEL Trustee”), Jeffrey K. Galvani (“Galvani”), and Stuart A. Jeffery (“Jeffery”) (collectively, “Defendants”), and alleges as follows:

SUMMARY

1. GEL, its managing trustee (GEL Trustee), and its co-owners and control persons (Galvani and Jeffery), have engaged in the business of selling penny stocks and other securities for the accounts of GEL’s customers without being registered as brokers or being associated with a registered broker.

2. Galvani and Jeffery created GEL, which they manage through its trustee, GEL Trustee. Neither GEL nor GEL Trustee are registered with the SEC as a broker-dealer.

3. Nonetheless, GEL’s business model is to act as an introducing broker. Among other actions, GEL: (a) takes possession of its customers’ penny stocks; (b) finds executing brokers willing to sell the stocks in the market; (c) directs the executing brokers on completing

the sales; and (d) facilitates the settlement of the trades and disbursement of proceeds to its customers.

4. From approximately June 2019 to at least May 2022, Galvani and Jeffery, acting through the unregistered GEL entities, used this business model to execute more than 19,000 trades of more than 300 billion shares of stock of more than 400 issuers on behalf of approximately 60 customers. These trades generated more than \$1.2 billion of trading proceeds for GEL's customers. In turn, GEL received more than \$12.4 million in compensation, including transaction-based compensation, from its customers.

5. By engaging in the conduct alleged herein, Defendants violated Section 15(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78o(a)]. Pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)], Galvani and Jeffery -- as control persons of GEL and GEL Trustee -- are also liable for GEL's and GEL Trustee's Section 15(a) violations.

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

6. The SEC brings this action pursuant to the authority conferred upon it by Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. § 78u(d) and 78u(e)].

7. The SEC seeks a final judgment permanently enjoining Defendants from violating Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)], ordering Defendants to disgorge all ill-gotten gains obtained as a result of the violations alleged herein (together with prejudgment interest), ordering Defendants to pay civil penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], barring Defendants from participating in any offering of any penny stock pursuant to Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)], and ordering any other relief the Court may deem just and proper.

JURISDICTION AND VENUE

8. This Court has subject matter jurisdiction pursuant to Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

9. Defendants made use of the mails or means or instrumentalities of interstate commerce in connection with the acts, practices, transactions, and courses of business alleged in this Complaint.

10. Venue in this District is proper pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Certain of the transactions, acts, practices, and courses of business constituting the violations alleged herein occurred within this District. Defendants also transact business within this district.

DEFENDANTS

11. GEL is a Delaware statutory trust that maintains its principal office in New York, New York.

12. GEL Trustee is a Delaware limited liability company that maintains its principal office in New York, New York. GEL Trustee is the managing trustee of GEL. Galvani and Jeffery co-own and co-manage GEL Trustee.

13. Galvani is a resident of Hudson County, New Jersey.

14. Jeffery is a resident of Nassau County, New York.

FACTS

A. Background

15. Galvani and Jeffery have worked in the securities industry since approximately 1997 and 2006, respectively, and they are currently affiliated as registered representatives at the same registered broker-dealer. They have known each other for many years.

16. In approximately early 2019, Galvani and Jeffery decided to start a new financial firm outside of their affiliation with the registered broker-dealer.

17. To that end, Galvani and Jeffery formed GEL, and at all times have jointly controlled GEL.

18. Galvani and Jeffery exercise control over GEL through its managing trustee, GEL Trustee. Galvani and Jeffery each own 50% of GEL Trustee.

19. Galvani and Jeffery established GEL as a firm that could facilitate securities transactions for its customers by, among other things: (i) assisting in executing, clearing, and settling securities transaction; (ii) accepting, routing, matching, or otherwise handling customer orders; and (iii) handling customer funds and securities.

20. Using their experience and connections in the industry, Galvani and Jeffery had no trouble finding customers for their new firm. GEL obtained many of its customers through customer referrals and referrals from other brokerage firms. As of May 2022, GEL had opened accounts for approximately 60 customers, including customers in multiple U.S. states.

21. The vast majority of GEL's trading activity related to the sale of penny stocks that its customers obtained through various sources, including the acquisition of convertible promissory notes or other forms of microcap financing.

22. Neither GEL nor GEL Trustee has ever been registered as a broker-dealer.

23. From at least June 2019 to May 2022, Galvani and Jeffery conducted GEL's and GEL Trustee's business without any affiliation with a registered broker-dealer.

24. Although Galvani and Jeffery were affiliated brokers of a registered broker-dealer during that period, their GEL-related activities were conducted separate and apart from their affiliation with that broker-dealer, and Galvani and Jeffery listed their GEL-related activities as

“Other Business Activities” that were separate and apart from their affiliation with that broker-dealer.

25. In February 2022, Galvani and Jeffery attempted for the first time to include their GEL-related activities with their affiliated broker-dealer. However, the broker-dealer did not supervise any of GEL’s trading activity before May 2022, at the earliest.

B. GEL’s Business Model

26. Every new GEL customer was required to fill out an “Account Application” that, among other things, confirmed that GEL would have trading authorization over the customer’s securities. The Account Application stated explicitly that: “you grant trading authorization [to GEL] when you sign your application.”

27. Several GEL customers also provided their own documents to GEL confirming their understanding that they were opening a “brokerage account” with GEL and that GEL would provide broker-dealer services.

28. After enrolling a new customer, GEL sent a “Welcome Packet” that:

- Listed Galvani and Jeffery as GEL’s Managing Partners;
- Stated that customers would use “the following form to authorize the transfer of assets, currently at another firm, to your brokerage account held at GEL”;
- Provided a “Deposit Checklist” that included general requirements to ensure that customers could transfer their securities to GEL; and
- Required customers to set up an account for GEL to wire their trading proceeds.

29. GEL established omnibus accounts in its name to hold its customer’s trading proceeds and GEL’s fees. The omnibus accounts had sub-accounts associated with each

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