

Bloomberg.com

 [Bloomberg Anywhere](#) | [Bloomberg Professional](#) | [About Bloomberg](#)

Updated: New York, Apr 25 20:59

London, Apr 26 01:59

Tokyo, Apr 26 09:59

Search News

Citigroup Selects Sumitomo Mitsui

Get trade terms.
On your terms.



AMERICAN EXPRESS **OP**

Calling all business

[HOME](#) [NEWS](#) [MARKET DATA](#) [PERSONAL FINANCE](#) [TV and RADIO](#)

[LOG IN/REGISTER](#)

[Feedback](#)

Popular:

[Politics](#) [Environment](#) [Madoff](#) [Industries](#) [Currencies](#) [ETFs](#) [Toxic Debt](#) [C-Suite](#)

news

- [STORY](#)
- [PHOTOS](#)
-

- [Exclusive](#)
- [Worldwide](#)
- [Regions](#)
- [Africa](#)
- [Asia](#)
- [Australia & New Zealand](#)
- [Canada](#)
- [China](#)
- [Eastern Europe](#)
- [Europe](#)
- [France](#)
- [Germany](#)
- [India & Pakistan](#)

JPMorgan Kept Quiet on Madoff's False Returns, Investors Allege
[Share](#) | [Email](#) | [Print](#) | [A A A](#)

By David Glovin and Joel Rosenblatt

April 24 (Bloomberg) -- [JPMorgan Chase & Co.](#) was accused in a lawsuit by Florida investors who lost \$12.8 million of conspiring with [Bernard Madoff](#) after learning that his investment returns were false.

The investors, in a complaint filed yesterday in federal court in Manhattan, claim JPMorgan Chase "entered into a conspiracy" with Madoff in violation of federal racketeering laws. Madoff, 70, disclosed the fraud on Dec. 11 and

- [Japan](#)
- [Latin America](#)
- [Middle East](#)
- [U.K. & Ireland](#)
- [U.S.](#)
- [Markets](#)
- [Industries](#)
- [Economy](#)
- [Politics](#)
- [Law](#)
- [Environment](#)
- [Science](#)
- [Opinion](#)
- [Spend](#)
- [Sports](#)
- [Arts and Culture](#)
- [Editors' Video Picks](#)
- [Bloomberg Markets Magazine](#)
- [Special Report](#)



pleaded guilty last month to running a Ponzi scheme that may have cost investors as much as \$65 billion.

The suit by MLSMK Investments Co., a Palm Beach, Florida- based partnership, claims the New York-based bank learned of the fraud in September 2008 after investigating why funds that invested with Madoff hadn't suffered steep losses in the

global sell-off.

The bank "quietly liquidated its entire \$250 million cash position" with a fund that had invested with Madoff while continuing to provide fee-generating services to Madoff's business, according to the complaint.

"Rather than protect other victims of Madoff's fraud as it had already protected itself, Chase chose not only to protect Madoff but to partner with him in the fleecing of his victims by providing exactly the same range of services, for substantial fees, after learning of his criminal enterprise," MLSMK said in its complaint.

[Brian Marchiony](#), a JPMorgan spokesman, declined to comment on the complaint.

RESOURCES

- [Bloomberg TV](#)
- [Bloomberg Radio](#)
- [Bloomberg Podcasts](#)
- [Bloomberg Press](#)

Bank Accounts

Madoff had accounts with JPMorgan and Bank of New York. Last month, JPMorgan agreed to transfer \$2.4 million in a Madoff account to the trustee for Bernard L. Madoff Investment Securities LLC.

Madoff pleaded guilty on March 12 to defrauding investors by using money from new ones to pay off old ones. Prosecutors said Madoff told investors they had as much as \$65 billion with Madoff Securities. Madoff is in custody and faces a prison sentence of as much as 150 years.

MLSMK said it deposited \$12.8 million with [JPMorgan](#) from October to December. During that time, the bank allowed its brokers to trade with Madoff's market-making business, which he used to generate legitimate trading volume that satisfied regulator audits and inquiries, according to the complaint.

'Unsuspecting Victims'

The bank "received and deposited cash from unsuspecting victims for Madoff's benefit and permitted him to use those funds in any manner he pleased, including the continued operation of his Ponzi scheme," MLSMK said in the complaint.

Madoff cultivated a business relationship with Chase Bank beginning in 1992 and had all investor funds received for his advisory business deposited into Chase accounts, according to the complaint. By 2006, as his advisory business

account grew, Madoff had billions of dollars in cash in JPMorgan's Chase unit, MLSMK said.

As the financial markets began to fall last year, the balance in Madoff's Chase account fell close to zero several times, forcing Madoff to wire funds into the account from his London operation, according to the complaint.

JPMorgan offered investors a note that paid three times the earnings of the Fairfield Greenwich Sentry fund, which invested mostly with Madoff. The note matured in five years. To hedge against its risk, JPMorgan deposited three times the face amount of the notes directly into the Sentry Fund, according to the complaint.

Sentry Fund

If the Sentry Fund did well, JPMorgan's returns would offset its obligations on the notes, MLSMK said. By the summer of 2008, JPMorgan had deposited \$250 million with the Sentry Fund, according to the complaint.

"Most investment funds were down almost 30 percent, yet the Sentry Fund reported gains of 5 percent due to the returns Madoff was showing," MLSMK said. JPMorgan, according to the complaint, "began to grow suspicious of Madoff's results and embarked on a due diligence investigation of Madoff's operations."

MLSMK said JPMorgan determined that it wasn't plausible for Madoff to be generating substantial positive returns last year while claiming to be invested almost entirely in S&P100 stocks while hedging with options, as he claimed.

The Chase due diligence team also determined that Madoff's trading volume with its largest counter-party, Bear Stearns, which was then part of JPMorgan, couldn't sustain a portfolio that was supposedly generating returns of as much as 12 percent. JPMorgan "quietly liquidated" its position in the Sentry Fund in September, according to MLSMK.

The investors' racketeering, negligence and breach-of-duty lawsuit, filed by the New York-based law firm Wachtel & Masyr, seeks \$12.8 million in compensatory damages plus punitive damages.

The case is MLSMK Investments v. JPMorgan, 09-cv-4049, U.S. District Court, Southern District of New York (Manhattan).

To contact the reporters on this story: [David Glovin](mailto:dglovin@bloomberg.net) in federal court in New York at dglovin@bloomberg.net, and [Joel Rosenblatt](mailto:jrosenblatt@bloomberg.net) in San Francisco at jrosenblatt@bloomberg.net.

Last Updated: April 24, 2009 00:01 EDT

- [Delicious](#)
- [Digg](#)
- [Facebook](#)
- [LinkedIn](#)

- [Newsvine](#)
- [Propeller](#)
- [Yahoo! Buzz](#)

[Advertisement: The Plum Card®. Take Charge of Your Cash Flow. Learn more.](#)

Sponsored Links

[Securities Fraud Lawyer](#)

Lost Investments in Bonds, Stocks, Mutual Funds? 1-866-372-8311
www.sonnerez.com

[California Fraud](#)

There are Huge Rewards for exposing Fraud against the State of CA
www.CAFraud.com

[Madoff](#)

Morningstar Dividend Investor gives unbiased picks from 100 analysts
www.morningstar.com/



Ads by Google

Bloomberg.com [NEWS](#) | [MARKET DATA](#) | [PERSONAL FINANCE](#) | [TV AND RADIO](#) | [ABOUT](#) | [LOG IN/REGISTER](#)

©2009 BLOOMBERG L.P. ALL RIGHTS RESERVED. [Terms of Service](#) | [Privacy Policy](#) | [Trademarks](#) | [Site Map](#) | [Help](#)