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Suit Claims JPMorgan Aided Madoff's Fraud

By [DIANA B. HENRIQUES](#)

Victims of [Bernard L. Madoff's Ponzi scheme](#) have accused his banker, [JPMorgan Chase](#), of aiding his crime by maintaining his checking accounts and trading with his brokerage firm long after the bank itself realized that its prized customer was running a vast fraud.

The accusation was made in [a lawsuit filed late Thursday](#) in federal court in Manhattan by lawyers representing one of the latecomers to Mr. Madoff's scheme, a Florida partnership that deposited \$12.8 million with him between October and early December.

A spokesman for the bank denied the accusation. "The allegations in this lawsuit are false and misguided and we look forward to swift vindication in court," said Brian Marchiony, after the bank's legal staff reviewed the complaint.

Mr. Madoff was arrested on Dec. 11 and pleaded guilty on March 12 to securities fraud, perjury and money laundering. He is in jail awaiting sentencing, currently scheduled for mid-June.

In admitting his crime, Mr. Madoff [acknowledged in court](#) that he had moved hundreds of millions of dollars through his checking accounts to give the illusion of active investing, when in fact he purchased no securities at all for his thousands of clients.

But according to the new lawsuit, the average balance in his checking accounts at JPMorgan Chase ran into the billions of dollars between 2006 and the middle of 2008, as nervous customers moved money from seemingly riskier investments into Mr. Madoff's hands.

Those enormous account balances, coming in from investors from all over the world, should have attracted the bank's attention, the complaint said. "Chase Bank permitted all funds from putative investors to be commingled in a single account and permitted Madoff to withdraw the funds as he saw fit, without limitation," it continued.

Then, in September 2008, the cash balance "began to drop precipitously," sometimes hovering near zero until Mr. Madoff could transfer fresh funds in from his London affiliate, according to the lawsuit. "In November 2008, the balance dropped close to zero several times," the complaint said, as "\$300 million was deposited by victims to the Chase account and Madoff withdrew \$320 million."

That violent ebb and flow of cash "did not comport with the banking patterns Madoff had demonstrated in the prior decade" and should have raised alarms at the bank, said Howard Kleinhendler of Wachtel & Masyr, the law firm representing the plaintiffs, a partnership called MLSMK Investments Company, based in Palm

Beach, Fla.

In January, [the bank acknowledged](#) that it began withdrawing \$250 million of its own money from one of Mr. Madoff's largest feeder funds, the Sentry funds operated by the [Fairfield Greenwich Group](#), last September.

In response to questions, it said only that the action followed a review of the funds by the bank's due diligence staff.

Besides doing that due diligence and observing Mr. Madoff's checking accounts, the bank had another window into Mr. Madoff's business last fall, the new lawsuit asserts. That was the equity trading operation at [Bear Stearns](#), which the bank acquired when it took over the investment bank in March 2008.

Bear Stearns had been steering a significant amount of stock transactions through his firm for years, Mr. Kleinhendler said. His complaint claims that the continuation of this prestigious trading relationship helped Mr. Madoff to deceive prospective investors to the very end of his scheme.

But that relationship also should have allowed the bank to see that the cash moving through Mr. Madoff's bank accounts far exceeded the amounts that could have been invested through his trading operations, Mr. Kleinhendler said.

If the bank had acted on its widening knowledge about Mr. Madoff's operation and pulled the plug on his bank accounts in September, when it pulled its own money out of the Sentry feeder funds, the plaintiffs would not have lost the \$12.8 million they deposited in the final weeks of the fraud, the complaint concludes.

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