UNITED STATES ATTORNEY'S OFFICE
Southern District of New York

U.S. ATTORNEY PREET BHARARA

FOR IMMEDIATE RELEASE
Tuesday, January 7, 2014
http://www.justice.gov/usao/nys

CONTACT: U.S. ATTORNEY'S OFFICE
Jim Margolin, Jerika Richardson,
Jennifer Queliz
(212) 637-2600

OCC
Bryan Hubbard
(202) 649-6870

FBI
Chris Sinos, J. Peter Donald,
Jennifer Ranucci, Kelly Langmesser,
Adrienne Senatore
(212) 384-2100

FinCEN
Steve Hudak
(703) 905-3770

MANHATTAN U.S. ATTORNEY AND FBI ASSISTANT DIRECTOR-IN-CHARGE ANNOUNCE FILING OF CRIMINAL CHARGES AGAINST AND DEFERRED PROSECUTION AGREEMENT WITH JPMORGAN CHASE BANK, N.A., IN CONNECTION WITH BERNARD L. MADOFF'S MULTI-BILLION DOLLAR PONZI SCHEME

JPMorgan Criminally Charged with Two Violations of the Bank Secrecy Act

Charges to Be Deferred for Two Years Under an Agreement Requiring JPMorgan to Admit to Its Conduct; Pay $1.7 Billion to Victims of Madoff's Fraud; and to Reform Its Anti-Money Laundering Policies

$1.7 Billion Payment by JPMorgan is the Largest Ever Bank Forfeiture and Department of Justice Penalty for a Bank Secrecy Act Violation

Preet Bharara, the United States Attorney for the Southern District of New York, and George Venizelos, the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced criminal charges against JPMorgan Chase Bank, N.A. ("JPMorgan" or the "Bank"), consisting of two felony violations of the Bank Secrecy Act, in connection with the Bank's relationship with Bernard L. Madoff Investment Securities ("Madoff Securities"). The case is assigned to United States District Judge Lewis A. Kaplan.

Also today, Mr. Bharara announced an agreement (the "Agreement") with JPMorgan, under which the Bank agreed to accept responsibility for its conduct by stipulating to the accuracy of an extensive Statement of Facts; to pay a $1.7 billion penalty to the victims of the Madoff fraud through a parallel civil forfeiture complaint; to refrain from future criminal conduct and cooperate fully with the Government; and to continue reforms of its Bank Secrecy Act ("BSA")/Anti-Money Laundering compliance program. The criminal charges are contained in a two-count felony Information (the "Information"). Assuming the Bank's continued compliance with the Agreement, the Government has agreed to defer prosecution on the Information for a period of two years, after which time the Government will seek to dismiss the charges.

Manhattan U.S. Attorney Preet Bharara said: "Today, the largest financial institution in the country stands charged with two criminal offenses. Institutions, not just individuals, have an obligation to follow the law and to police themselves. They must exercise due care not only with their own money but with other people's money also. In this case, JPMorgan connected the dots when it mattered to its own profit, but was not so diligent otherwise. Fortunately, with today's resolution, the bank has accepted responsibility and agreed to continue reforming its anti-money laundering practices. Most importantly, the victims of Bernie Madoff's epic fraud are $1.7 billion closer to being made whole."

FBI Assistant Director-in-Charge George Venizelos said: "J.P. Morgan failed to carry out its legal obligations while Bernard Madoff built his massive house of cards. Today, J.P. Morgan finds itself criminally charged as a consequence. But it took until after the arrest of Madoff, one of the worst crooks this office has ever seen, for J.P. Morgan to alert authorities to what the world already knew. In order to avoid these types of disasters in the future – we all need to be invested in making our markets safer and more equitable. The FBI can't do it alone. Traders, compliance officers, analysts, bankers, and executives are the gatekeepers of the financial industry. We need their help protecting our markets."

In separate actions, the United States Department of the Treasury, Office of the Comptroller of the Currency ("OCC"), and the Financial Crimes Enforcement Network ("FinCEN"), announced that they had also reached agreements with JPMorgan.

According to the documents filed today in Manhattan federal court:

Since 1986, JPMorgan and its predecessor institutions served as the primary bank through which Madoff ran his Ponzi scheme. Madoff Securities maintained a series of linked checking and brokerage accounts at JPMorgan – collectively referred to as the "703 Account." Madoff was a client of the Bank's broker/dealer banking group, an investment bank group that comprised personnel from various business lines that serviced the needs of broker/dealer clients. JPMorgan designated a banker as Madoff's "relationship manager," who was principally responsible for Madoff's business with the Bank, as well as for the Bank's first-line BSA responsibilities, including certifying that the Madoff relationship "complies with relevant legal and regulatory-based policies," and "that the necessary due diligence has been performed."

Early on in its relationship with Madoff Securities, JPMorgan, because of its unique vantage point as the firm's banker, had reason to be suspicious about Madoff. For example, in the early 1990s the Bank learned that Madoff and a prominent client of JPMorgan's Private Bank (the "Private Bank Client") were engaged in what looked like round-tripping, check-kiting transactions. Another bank involved in these transactions ("Madoff Bank 2") recognized them as suspicious and without any legitimate business purpose. In or about 1996, unlike JPMorgan, Madoff Bank 2 not only filed a suspicious activity report ("SAR") with law enforcement, but it actually closed down Madoff's account. As a result, Madoff moved all of his accounts from

Madoff Bank 2 to JPMorgan, where the size of these transactions became much larger. For example, in December 2001 alone, the Private Bank Client engaged in approximately $6.8 billion worth of transactions with Madoff through a series of circular $90 million transfers.

Over the years, other parts of the Bank developed their own suspicions about Madoff. In 2006, an entirely different part of the Bank – a derivatives trading desk located in the London branch of JPMorgan's Investment Bank – became interested in Madoff. The trading desk began receiving requests to issue derivatives tied to the performance of various Madoff "feeder" funds – funds that sent investor money to Madoff Securities. In order to hedge and offset the risk created by these products, JPMorgan invested the Bank's own capital directly in the feeder funds. The Bank initially issued about $100 million of Madoff-linked products in 2006 and early 2007. Then, because of continued demand for these products, in the summer of 2007, the traders on the London desk sought to write more than $1 billion in Madoff-linked derivatives – a large deviation from normal risk limits, which therefore had to be approved by the Investment Bank's Chief Risk Officer. In June 2007, the Chief Risk Officer convened a committee to consider authorizing a request for more than $1.3 billion of the Bank's proprietary capital to be invested directly into Madoff feeder funds to hedge the issuance of additional derivative products tied to the performance of Madoff feeder funds. Ultimately, the Chief Risk Officer – who at one point was told by a senior colleague that there is a "well-known cloud over the head of Madoff and that his returns are speculated to be part of a Ponzi scheme" – rejected the proposal and set the Madoff risk limit at $250 million.

Over the next several months, JPMorgan began to have increasing concerns about its exposure to Madoff. In late 2007, the London trading desk hired its own due diligence staff; on the first day of his job, the newly-hired head of hedge fund due diligence was directed to review the Madoff feeder fund positions and offer any insight into how Madoff was able to generate his purported returns. Ultimately, in October 2008, the London desk's due diligence team circulated a negative memorandum describing continuing concerns about Madoff. Among other things, the memorandum described the inability of JPMorgan to validate Madoff's trading activity or custody of assets, questioned Madoff's "odd choice" of a one-man accounting firm, and generally made the point that JPMorgan "seem[ed] to be relying on Madoff's integrity" with little reason to do so.

About two weeks after the circulation of this memorandum, on October 29, 2008, JPMorgan filed a report with regulators in the United Kingdom, listing Madoff Securities as the "main subject – suspect" and repeating many of the concerns from that earlier memo. The report to the UK regulators concluded that Madoff's returns were "probably" "too good to be true," and "as a result," JPMorgan was withdrawing about $300 million of its own money from the Madoff feeder funds. On November 19, 2008, the Bank filed a second report, notifying U.K. regulators about an additional planned transaction involving its position in the feeder funds, lest JPMorgan "be considered party to laundering the proceeds of crime." As part of a broader directive to reduce generally the Bank's exposure to hedge funds, between October 2008 and Madoff's arrest on December 11, JPMorgan redeemed approximately $288 million of its approximately $370 million position in the Madoff feeder funds.

Although JPMorgan filed a report with UK regulators about its concerns relating to Madoff, it failed to do so in the United States. While the suspicions raised by the UK bankers led to JPMorgan's own redemptions from Madoff feeder funds, during the same time, U.S.-based anti-money laundering compliance officers at JPMorgan never looked into Madoff, and nor was the relationship sponsor alerted about the London desk's concerns. And while certain senior compliance officers in the United States were provided with all of the relevant facts – critically, the London traders' suspicions about Madoff and the fact of the decades-long banking relationship with Madoff – the U.S. compliance officers did very little to investigate those suspicions, failed to raise these concerns with the bank's anti-money laundering department, and failed to file a SAR.

Meanwhile, the balance in the 703 Account that held the billions Madoff stole from his customers was being drained. In August 2008, the account held approximately $5.6 billion. But by October 16, 2008 – the date of the negative memorandum described above – the balance had fallen to $3.7 billion. And on October 29, when the Bank filed its report in the U.K., the balance had fallen another $700 million, to about $3 billion. Over the next five weeks before Madoff's arrest, a little over $2 billion exited the 703 Account. By the time Madoff was arrested on December 11, 2008, only about $234 million remained in the 703 Account. Of those lost billions, the vast majority went to the very funds in which JPMorgan had built a position, including about $288 million that went back to JPMorgan itself to pay for its redemptions from the feeder funds.

As a result of the foregoing conduct, this Office has entered into a Deferred Prosecution Agreement with JPMorgan, which has been submitted today to Judge Kaplan. Pursuant to the Agreement, the Bank has agreed to the following terms and conditions. First, JPMorgan has agreed to waive indictment and to the filing of the Information, charging the Bank with violations of the Bank Secrecy Act. Count One of the Information charges that JPMorgan failed to maintain an effective anti-money laundering program in 2008, as required under the BSA. Specifically, Count One alleges that JPMorgan failed to enact adequate policies, procedures, and controls to ensure that information about the Bank's clients obtained through other lines of business – or outside the United States – was shared with compliance and AML personnel. Count Two of the Information alleges that JPMorgan violated the BSA by failing to file a Suspicious Activity Report on Madoff Securities in October 2008.

Second, pursuant to the Agreement, JPMorgan agrees to acknowledge responsibility for its conduct by, among other things, stipulating to the accuracy of a detailed Statement of Facts.

Third, JPMorgan agrees to pay a non-tax deductible penalty of $1.7 billion, in the form of a civil forfeiture, which the Government intends to distribute to the victims of the Madoff fraud, consistent with the applicable Department of Justice regulations, through the ongoing remission process. To effectuate that forfeiture, the Office has today filed a parallel civil forfeiture complaint, which has been assigned to United States District Judge Andrew L. Carter, Jr. The $1.7 billion penalty represents the largest ever financial penalty imposed by the Department of Justice for a violation of the Bank Secrecy Act, and the largest forfeiture from a bank. Information about the remission process, including instructions for filing a claim, can be found on its website at www.madoffvictimfund.com.

Fourth, JPMorgan agrees to various cooperation obligations, including (1) cooperation in connection with this Office's ongoing investigation of the fraud at Madoff Securities; (2) an obligation to report any criminal conduct by any employee acting within the scope of his employment at JPMorgan; (3) reporting to this Office any BSA-related investigation or proceeding in which JPMorgan is involved; and (4) committing no subsequent federal crimes.

Fifth, JPMorgan agrees to continue reforming its Bank Secrecy Act/Anti-Money Laundering compliance programs and procedures, consistent with a pair of consent orders previously entered by the Bank's principal regulators, and to provide quarterly reports and other information to this Office about its progress.

In consideration of these obligations, the Government has agreed to defer prosecution on the Information for a period of two years, after which time – assuming that the Bank does not violate the Agreement – the Government will seek to dismiss the charges.

*　　　*　　　*

Mr. Bharara praised the work of the FBI. He also thanked the OCC and FinCEN.

This case was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which Mr. Bharara serves as a Co-Chair of the Securities and Commodities Fraud Working Group. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices and state and local partners, it's the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed nearly 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,900 mortgage fraud defendants. For more information on the task force, please visit www.StopFraud.gov.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Arlo Devlin-Brown and Matthew L. Schwartz are in charge of the prosecution.

14-003　　　　　　　　　　###