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46. In response to the CRO’s e-mail about the Madoff Ponzi scheme rumors, the Global Head of Equities wrote that JPMC should “seriously look into it” as JPMC lent Madoff Securities money through the B/D Banking Group. The Global Head of Equities also commented that it was “hard to believe this would be going on over the years” because Madoff Securities was “regulated by SEC, NYSE, NASD etc.” To this the CRO responded that “Refco was regulated by the same crowd [that regulates Madoff Securities] and there was noise about them for years before it was discovered to be rotten to the core,” adding that “we owe it to ourselves to investigate further.” And in another e-mail several days later, the CRO wrote to one of the co-Chief Executive Officers of the Investment Bank that the JPMC Executive “told me Madoff has a very shady reputation in the market.”
47. Neither the CRO nor anyone else at JPMC located the article to which the JPMC Executive had referred, although a junior JPMC employee conducted an unsuccessful search. The article referenced by the JPMC Executive was a 2001 Barron’s feature entitled “Don’t Ask, Don’t Tell: Bernie Madoff is so secretive, he even asks his investors to keep mum.” The Barron’s article, among other things, raised some of the same issues identified by JPMC’s risk analysts. For example, it noted Madoff Securities had “produced compound average annual returns of 15% for more than a decade,” and that “some of the larger, billion-dollar Madoff-run funds have never had a down year.” The article then reported that “some on the Street have begun speculating that Madoff’s market-making operation subsidizes and smooths his hedge-fund returns” and described how such smoothing could be accomplished through an unlawful practice known as front-running.
48. On or about June 27, 2007, the head of the Investment Bank’s structured products group e-mailed the CRO a “quick reminder” that JPMC had “client trades requiring \$150 mm of delta to buy in funds investing in Madoff on Friday of this week” and that there would be “further significant flows at next month end.” The CRO then requested and received additional information from the B/D Group about Madoff Securities, including information from its credit reviews. On the same day, the CRO also spoke by telephone to Madoff, who answered questions asked by the CRO. At the same time, the CRO understood that Madoff would not authorize any further direct due diligence on Madoff Securities.
49. Later the same day, June 27, 2007, the CRO wrote “we will approve up to \$250 mio for these trades,” then clarified that he was approving \$250 million of total risk exposure, to include both JPMC’s existing approximately \$105 million in exposure as well as exposure generated through new transactions by the Investment Bank. Based on the decision to set risk exposure at \$250 million, the Equity Exotics Desk ended its



discussions related to other potential Madoff derivative transactions then under negotiation in order to stay within the risk limits.

June 2007 – September 2008: The Equity Exotics Desk Monitors  
JPMC’s Exposure to Madoff Securities

50. In approximately August 2007, an Equity Exotics employee (“Equity Exotics Banker 1”) conducted an analysis in order to determine the relationship between returns reported by a Madoff feeder fund and the investments in S&P 500 stocks and Treasury bills that Madoff claimed comprised his investment strategy. Equity Exotics Banker 1 was unable to determine based on available information how the Madoff feeder fund could have produced these returns had Madoff followed this strategy, writing that the market performance during the period analyzed was “far away” from the returns that Madoff “allegedly made.” After obtaining further information and conducting further analysis, Equity Exotics Banker 1 e-mailed a colleague that he did “take comfort from the fact” that two separate Madoff feeder funds were reporting close to the same returns for the period.
51. Also in the Fall of 2007, JPMC hired a “Head of Due Diligence” for the Equity Exotics Desk. On his first day on the job, the head of the Equity Exotics Desk directed the Head of Due Diligence to review the Madoff feeder fund positions and offer any insight into how Madoff was able to generate his purported returns. The Head of Due Diligence was unable to explain the returns and learned that the Equity Exotics Desk was no longer interested in issuing products linked to the returns of Madoff Securities.
52. On June 23, 2008, after reviewing e-mails about the failure of one of the feeder funds to provide information to JPMC, including about how the money sent to Madoff was invested, and the departure of various feeder fund employees, a senior Equity Exotics banker e-mailed the head of the Equity Exotics Desk: “How much do we have in Madoff at the moment? To be honest, the more I think about it, the more concerned I am.”
53. In or around September 2008, as described below, JPMC began to consider redeeming its positions in the Madoff feeder funds.

October 2008: JPMC Concludes In A Report To U.K. Regulators That Madoff’s Returns Are  
Probably Too Good To Be True

54. In mid-September 2008, following the collapse of Lehman Brothers and growing concerns about counter-party risk, JPMC’s Head of Global Equities directed investment bank personnel to substantially reduce JPMC’s exposure to hedge funds, which had increased following JPMC’s March 2008 acquisition of Bear Stearns. This directive was reiterated by the Investment Bank Risk Committee on October 3, 2008. Acting at the direction of the Head of Global Equities, the Equity Exotics Desk began analyzing which hedge funds to reduce exposure to, including by directing the Desk’s due diligence analyst (the “Equity Exotics Analyst”) to scrutinize investments in various hedge funds, including the Madoff feeder funds. The Equity Exotics Analyst conducted this due diligence by, among other things, analyzing the reported strategy and returns of Madoff

Securities, speaking to personnel at Madoff feeder funds and financial institutions administering Madoff feeder funds, and unsuccessfully seeking from the feeder funds and administrators documentary proof of the assets of Madoff Securities.

55. On October 16, 2008, the Equity Exotics Analyst wrote a lengthy e-mail to the head of the Equity Exotics Desk and others summarizing his conclusions (the “October 16 Memo”). The October 16 Memo described the inability of JPMC or the feeder funds to validate Madoff’s trading activity or custody of assets. The October 16 Memo noted that the feeder funds were audited by major accounting firms, which had issued unqualified opinions for 2007, but questioned Madoff’s “odd choice” of a small, unknown accounting firm. The October 16, 2008 Memo reported that personnel from one of the feeder funds “said they were reassured by the claim that FINRA and the SEC performed occasional audits of Madoff,” but that they “appear not to have seen any evidence of the reviews or findings.” The October 16 Memo also questioned the reliability of information provided by the feeder funds and the willingness of the feeder funds to obtain verifying information from Madoff. For example, the memo reported that personnel at one feeder fund “seem[ed] very defensive and almost scared of Madoff. They seem unwilling to ask him any difficult questions and seem to be considering his ‘interests’ before those of the investors. It’s almost a cult he seems to have fostered.” The Equity Exotics Analyst further wrote that there was both a “lack of transparency” into Madoff Securities and “a resistance on the part of Madoff to provide meaningful disclosure.”
56. The October 16 Memo ended with the observation that: “[t]here are various elements in the story that could make us nervous,” including the fund managers’ “apparent fear of Madoff, where no one dares to ask any serious questions as long as the performance is good.” The October 16 Memo concluded: “I could go on but we seem to be relying on Madoff’s integrity (or the [feeder funds’] belief in Madoff’s integrity) and the quality of the due diligence work (initial and ongoing) done by the custodians . . . to ensure that the assets actually exist and are properly custodied. If some[thing] were to happen with the funds, our recourse would be to the custodians and whether they had been negligent or grossly negligent.”
57. The Head of Due Diligence responded by complimenting the Equity Exotics Analyst on the October 16 Memo, making reference to other long-running fraud schemes, and suggesting in a joking manner that they should visit the Madoff Securities accountant’s office in New City, New York to make sure it was not a “car wash.”
58. The October 16 Memo was forwarded to JPMC’s in-house and external counsel, as well as to JPMC’s London-based Head of AML for the EMEA region, who also served as JPMC’s designated BSA Officer for the region (the “EMEA BSA Officer”). Following review of the October 16 Memo and consultation with legal counsel, on or about October 29, 2008, the EMEA BSA Officer filed with the U.K. Serious Organised Crime Agency (“SOCA”) a report, also called a suspicious activity report or SAR, pursuant to the terms of the United Kingdom’s Proceeds of Fraud Act (the “U.K. Report”). The U.K. Report was filed by the EMEA BSA Officer on behalf of JPMorgan Chase Bank, N.A. – the OCC-regulated entity – and identified Madoff Securities as its “main subject – suspect.” Under “reason for suspicion,” the EMEA BSA Officer wrote, in pertinent part:

JPMCB's [*i.e.*, JPMorgan Chase Bank, N.A.'s] concerns around Madoff Securities are based (1) on the investment performance achieved by its funds which is so consistently and significantly ahead of its peers year-on-year, even in the prevailing market conditions, as to appear too good to be true – meaning that it probably is; and (2) the lack of transparency around Madoff Securities trading techniques, the implementation of its investment strategy, and the identity of its OTC [over the counter] options counterparties; and (3) its unwillingness to provide helpful information. As a result, JPMCB has sent out redemption notices in respect of one fund, and is preparing similar notices for two more funds.

59. The U.K. Report continued that “JPMCB is also concerned about the conflict of interests which the three combined roles of BLM could represent” – *i.e.*, acting “as sub-advisor, sub-custodian and broker/dealer to the funds in question” – a factor also cited in the October 16 Memo regarding JPMC’s inability to verify that the assets of Madoff Securities “actually exist.” The U.K. Report further noted that other investment advisors had attempted to replicate Madoff’s stated strategy “but nowhere near as successfully as BLM,” and that the feeder fund managers “appear to know very little about how BLM strategy and systems work, and seem unconcerned in view of its consistent profitability.” Under the heading “[o]f further concern,” the U.K. Report also described the “small and unknown” auditors used by Madoff Securities.
60. The U.K. Report then quantified JPMC’s Madoff-related hedge fund redemptions as being undertaken “as a result” of these suspicions: €150 million (out of a total of €200 million) from one fund, and \$150 million (out of a total of \$150 million) from another.
61. In addition to reporting JPMC’s suspicion that Madoff Securities was claiming returns “too good to be true,” the U.K. Report also identified a distributor of the Madoff-linked derivatives as a “secondary subject” of the report. The basis for JPMC’s suspicions about the distributor was a call between a JPMC Investment Bank salesperson and an employee of the distributor in which JPMC informed the distributor that JPMC intended to invoke a provision of the note agreement enabling JPMC to delink the notes from the performance of a Madoff feeder fund. During the call, the distributor’s employee expressed displeasure about JPMC’s proposed action and referenced having “Colombian friends who cause havoc . . . when they get angry. . . .”
62. On November 19, 2008, the EMEA BSA Officer filed a second report with SOCA in the United Kingdom, on behalf of JPMorgan Chase Bank, N.A. This report alerted British regulators to a proposal by JPMC to buy back certain of the Madoff-linked notes from investors linked to the distributor who had referenced “Colombian friends” and stated that “[c]learly we do not wish to make the legal offer if there is any risk that we could not meet our obligations if SOCA refused consent at a later date, on the basis that JPM could be considered party to laundering the proceeds of crime.”

63. Prior to filing either of the U.K. reports, a U.K. markets compliance officer (the “U.K. Markets Compliance Officer”) and a JPMC lawyer based in the United Kingdom spoke to the Global Head of Equities about the Madoff redemptions and need to potentially file a report. The Global Head of Equities stated that Madoff was not an important client relationship to him. The Global Head of Equities also indicated that he supported taking any necessary steps with regard to “disclosure to US/UK regulators,” and that he assumed JPMC’s general counsel would be involved in the “ultimate decision.” No disclosure was made to United States regulators and no report was made to JPMC’s general counsel.

#### JPMC’s Redemptions From Madoff Feeder Funds

64. On October 16, 2008 – the day of the October 16 Memo – an Equity Exotics employee requested by e-mail a “list of all external trades and the exact counterparty trade” for each of the Madoff-related feeder funds, noting that “[t]he list needs to be exhaustive as we may be terminating all of these trades and we cannot afford missing any.” The Equity Exotics Desk, which had already placed redemption orders for approximately \$78 million from the Madoff feeder funds between October 1 and October 15, thereafter sought to redeem almost all of its remaining money in the Madoff feeder funds.
65. In addition to redeeming its positions in the Madoff feeder funds, JPMC sought, with the assistance of legal counsel, to cancel or otherwise unwind certain of the structured products issued related to the performance of the Madoff feeder funds. In an attempt to unwind these transactions, JPMC told the distributors of the Madoff notes that it was invoking a provision of the derivatives contract that enabled it to de-link the notes from the performance of the Madoff feeder funds if JPMC could not obtain satisfactory information about its investment. For example, in a letter dated October 27, 2008, JPMC warned that it would declare a “Lock-In Event” under the terms of the contract unless the recipient – a distributor that the Equity Exotics Analyst had spoken to as part of his due diligence underlying the October 16 Memo – could provide the identity of all of Madoff Securities’ options counterparties by 5:00 PM the following day.
66. In the Fall of 2008, the amount of JPMC’s position in Madoff feeder funds fell from approximately \$369 million at the beginning of October 2008 (which was down slightly from its high-water mark of \$379 million, in July 2008) to approximately \$81 million at the time of Madoff’s arrest, on December 11, 2008 – a reduction of approximately \$288 million, or approximately 80% of JPMC’s proprietary capital invested as a hedge in Madoff feeder funds. During the same period, JPMC spent approximately \$19 million buying back Madoff-linked notes and approximately \$55 million to unwind a swap transaction with a Madoff feeder fund that eliminated JPMC’s contractual obligation with respect to those structured products. When Madoff was arrested, JPMC booked a loss of approximately \$40 million, substantially less than the approximately \$250 million it would have lost but for these transactions.
67. At the same time, the Equity Exotics Desk also held through the time of Madoff’s arrest a gap note providing JPMC with \$5 million in protection if the value of a Madoff feeder fund collapsed completely. In a November 28, 2008 e-mail, an Equity Exotics banker

declined a third party's request to buy this protective gap note from JPMC, and described the gap note as being "as of today . . . very valuable" to JPMC.

68. Although JPMC sharply reduced its hedge position in Madoff feeder funds, it was exposed to substantial risk in the event that Madoff Securities continued to perform successfully because it had not been able to unwind or otherwise cancel an equivalent value of JPMC-issued notes linked to the performance of the Madoff feeder funds.
69. No one at the Investment Bank involved in JPMC's redemptions from the Madoff feeder funds informed anyone in the B/D Group of their concerns about the validity of Madoff's returns or even the fact of the redemptions. The key Investment Bank personnel involved in the Madoff feeder fund redemptions knew that the B/D Group had a banking relationship with Madoff Securities.

#### JPMC's Failure to File a SAR in the United States

70. Although JPMC stated in the U.K. Report that a New York-based, SEC-regulated broker-dealer's reported returns were "probably too good to be true," JPMC failed to file a SAR in the United States.
71. The U.K.-based EMEA BSA Officer who filed the U.K. Report did not ask anyone in the United States AML compliance function to investigate the suspicions about Madoff Securities described in the U.K. Report. The EMEA BSA Officer placed a phone call to the JPMC BSA Officer (as defined in paragraph 6, above) but, upon failing to reach him, did not follow up with any other individual in the United States AML compliance function. The EMEA BSA Officer also contacted the Head of Global Compliance for JPMC about the threat to the JPMC employee referenced in paragraph 62 stemming from planned Madoff feeder fund redemptions and steps taken to address it, but did not raise any issue about the potential need to file a SAR in the United States. JPMC did not at the time have any formal protocol for the sharing of information about suspicious activity between geographic regions.
72. So that he would be prepared to answer questions in the event that the Global Head of Equities were to learn about the U.K. Report, the U.K. Markets Compliance Officer alerted a high-ranking compliance officer for JPMC's Investment Bank in the United States (the "Senior IB Compliance Officer") about the trading desk's suspicions concerning Madoff Securities, and, ultimately, the Senior IB Compliance Officer learned that a report in the U.K. had been filed (although he did not receive a copy). The U.K. Markets Compliance Officer did not ask the Senior IB Compliance Officer to undertake any AML review, and no such review was undertaken by United States AML personnel.
73. The U.K. Markets Compliance Officer also provided the Senior IB Compliance Officer with a copy of the October 16 Memo, as well as copies of the written materials that accompanied the original Madoff derivative proposal from June 2007. Both the October 16 Memo and the June 2007 written material identified, in numerous places, the decades-long banking relationship between Madoff Securities and JPMC, and the relationship in particular between Madoff Securities and JPMC's B/D Group. For example, the June

2007 written materials specifically noted that “BLM is a relationship of JPMorgan’s broker-dealer team in New York,” *i.e.*, the B/D Group.

74. The Senior IB Compliance Officer did not alert U.S. AML Compliance personnel about the concerns expressed in the October 16 Memo. Nor did the Senior IB Compliance Officer take any steps to examine JPMC’s banking relationship with Madoff or the activity within the Madoff Securities accounts at JPMC. The Senior IB Compliance Officer did informally discuss the information he had received about Madoff Securities with several colleagues during an impromptu conversation in a hallway. After that conversation, one of the participants in that conversation – on his own initiative – conducted internet-based research and located two articles that contained negative information about Madoff Securities: the 2001 Barron’s article, discussed above, that the JPMC Executive had referred to in June 2007, and an article in a hedge fund industry publication called MAR/Hedge from 2001 entitled “Madoff Tops Charts; Skeptics Ask How.”
75. The MAR/Hedge article identified Madoff Securities as having “\$6-\$7 billion in assets under management,” which “would put it in the number one or two spot” in the list of the world’s biggest hedge funds. The article noted Madoff’s “positive returns for the last 11-plus years,” with “little volatility,” and reported that other fund managers had attempted to replicate Madoff’s strategy with less success, and far more volatility. The MAR/Hedge article echoed the report in the Barron’s article that Madoff could be “subsidizing” client returns from his market-making business, by front-running order flow.
76. The Senior IB Compliance Officer forwarded one of the two articles to markets compliance personnel in the U.K., and that article was ultimately forwarded to senior lawyers at JPMC in London. The Senior IB Compliance Officer has stated in connection with this investigation that, when he reviewed these articles in October 2008, he had viewed as significant that the concerns about the consistency of Madoff’s returns and lack of transparency had been discussed in articles since 2001, because it suggested to him that regulators likely would have already examined the concerns about Madoff Securities.
77. On or about November 10, 2008, an AML compliance officer based in London who had assisted in drafting the U.K. Report wrote an e-mail that contained information about JPMC’s redemptions from the Madoff feeder funds, and asked, “What other relationships, if any, does JPM have with either [a particular distributor] or Madoff Investment Securities?” A markets compliance officer responded, copying the U.S.-based Senior IB Compliance Officer and noting that JPMC had “lodged a report with the relevant U.K. authority” and that the Global Head of Compliance was “aware” of the report. The email also stated that, while U.K. personnel would examine JPMC’s relationship with Madoff in that jurisdiction, “given Madoff is a U.S. broker dealer we may undertake significant business in the U.S. I’ve copied [the Senior IB Compliance Officer] to keep him apprised.” No JPMC personnel took any action following this e-mail to investigate JPMC’s banking relationship with Madoff Securities.

78. At no time between October 16, 2008 and Madoff's arrest did JPMC file a SAR in the United States based on the suspicions articulated in the U.K. Report. Nor did anyone at JPMC during this time (a) examine the 703 Account; (b) inform the Madoff Securities relationship manager; (c) update the Madoff Securities KYC file; or (d) refer suspicions to any U.S.-based AML personnel.

Billions Of Dollars Were Transferred From The 703 Account After JPMC Redeemed Its Madoff Feeder Fund Investments And Filed The U.K. Report

79. JPMC continued providing banking services to Madoff Securities through the B/D Group until Madoff's arrest. In particular, after filing the U.K. Report, JPMC continued to process banking transactions for Madoff Securities in the account used for the Ponzi scheme, *i.e.*, the 703 Account, which was then being rapidly depleted through withdrawals as the scheme neared collapse.
80. Whereas the balance in the 703 Account reached approximately \$5.6 billion in August 2008, by October 16, 2008 – the date of the October 16 Memo – the account balance had fallen to \$3.7 billion. Thirteen days later, when the U.K. Report was filed, the balance had fallen another \$700 million, to approximately \$3 billion. And in the five business days after the U.K. Report was filed, approximately \$2.450 billion more was withdrawn from the 703 Account, leaving a balance of approximately \$550 million, some ninety percent less than it had been in August of the same year.
81. Most of the funds withdrawn during this period went to the same two feeder fund groups in which JPMC had invested – and then redeemed – JPMC's own funds. Between October 1 and October 28, 2008, JPMC placed redemption orders for approximately \$276 million from two particular feeder funds. On November 4, 2008, approximately \$1.3 billion was paid from the 703 Account to those two feeder fund groups in four transactions. Later in November 2008, JPMC placed redemptions orders for an additional approximately \$23.1 million from one of the funds; Madoff was arrested before those funds were ever received, however.
82. On December 11, 2008, agents of the Federal Bureau of Investigation arrested Madoff. At the time of his arrest, there was approximately \$234 million remaining in the 703 Account. Between October 16, 2008 and Madoff's arrest, approximately \$3.5 billion of the \$3.7 billion in the Madoff Securities accounts at JPMC had been withdrawn to pay customer redemptions.
83. On the day of Madoff's arrest, the Head of Due Diligence e-mailed the Equity Exotics Analyst who had drafted the October 16 Memo: "Can't say I'm surprised, can you?" The Equity Exotics Analyst replied: "No." On the same day, the EMEA BSA Officer who caused the U.K. Report to be filed stating that Madoff's returns appeared "too good to be true" e-mailed JPMC's BSA Officer and head of JPMC's AML department that Madoff Securities, "was the hedge fund that we reported 6 weeks ago and which I never had a one to one with you on. It came to pass." Additionally, on the same day, the JPMC head of structured products e-mailed the Global Head of Equities about the amount JPMC had been able to redeem from Madoff feeder funds before Madoff's arrest, commenting "we

got this one right at least – I said it looked too good to be true on that call with you in Sep[tember].” Finally, on the same day, the CRO e-mailed senior JPMC executives and wrote that with respect to Madoff, “we actually look like we have some clue of what we’re doing,” reporting that the investment bank had “got out of all but \$36 mio [million]” of “\$200 mio (down from the \$1 bio that [an investment bank executive] pushed hard for last year).” The CRO wrote further that the Chief Investment Officer of JPMC’s private bank had “told us a lot of our Private Bank customers have invested with Madoff but luckily we didn’t place any there.”

84. On March 12, 2009, Madoff pleaded guilty to securities fraud, wire fraud, money laundering, and related offenses, and was subsequently sentenced to 150 years’ imprisonment. These offenses, and others, were committed through transactions using Madoff’s 703 Account at JPMC.
85. After Madoff’s arrest, JPMC AML personnel examined the 703 Account transactions and filed a series of SARs relating to suspicious transactions in that account. JPMC did not file any SAR in the United States relating to Madoff prior to his arrest.



# Exhibit D



accounts, maintained at JPMorgan Chase Bank, N.A., its affiliates, and their predecessors (collectively and separately, “JPMC”).

2. By this Complaint, the Government seeks forfeiture of all right, title and interest in \$1,700,000,000 in United States currency (the “Defendant Funds”), which JPMC has agreed to forfeit to the United States pursuant to a Deferred Prosecution Agreement.

3. Upon entry of a final order forfeiting the Defendant Funds to the United States, the Government intends to distribute the funds to victims of the fraud, consistent with the applicable Department of Justice regulations, through the ongoing remission process. *See* 21 U.S.C. § 853(i)(1) and 28 C.F.R. Part 9.

#### **JURISDICTION AND VENUE**

4. This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1345 and 1355.

5. Venue is proper pursuant to 28 U.S.C. § 1355(b)(1)(A) because acts and omissions giving rise to the forfeiture took place in the Southern District of New York.

#### **FACTUAL ALLEGATIONS**

6. The Government’s claims for forfeiture arise out of the investigation of Bernard L. Madoff Investment Securities LLC, and its predecessor, Bernard L. Madoff Investment Securities (collectively and separately, “Madoff Securities”).

7. At all relevant times to this Complaint, Madoff Securities had its principal place of business in New York, New York. Madoff Securities operated three principal lines of business: market making, proprietary trading, and investment advisory. Madoff Securities was registered with the United States Securities and Exchange Commission (“SEC”) as a broker-dealer since in or about 1960 and as an investment adviser since in or about August 2006. Madoff was the founder of Madoff Securities and its sole owner.

8. For more than three decades, the Madoff Securities investment advisory business was a massive, multi-billion dollar Ponzi scheme. From at least as early as the 1970s through Madoff's arrest on December 11, 2008, Madoff and his co-conspirators fraudulently promised investors in Madoff Securities that their money would be invested in stocks, options, and other securities of well-known corporations. Contrary to these representations, investor money was in fact virtually never invested as promised. Instead, the Madoff Securities investment advisory business operated as a massive Ponzi scheme in which some investors were paid with money "invested" by different investors, and other proceeds were used to personally benefit Madoff and the people around him. At the time of its collapse in December 2008, Madoff Securities maintained more than 4,000 investment advisory client accounts, which purported to have a combined balance of approximately \$65 billion. In fact, Madoff Securities had only approximately \$300 million in assets at the time.

9. From in or about October 1986 through Madoff's arrest on December 11, 2008, the Madoff Ponzi scheme was conducted almost exclusively through a demand deposit account and other linked cash and brokerage accounts held at JPMC. During that time period, virtually all client investments were deposited into the primary Madoff Securities account at JPMC, and virtually all client "redemptions" were paid from a linked disbursement account, also held by Madoff Securities at JPMC.

10. On March 12, 2009, in connection with the Ponzi scheme operated through Madoff Securities, Madoff pleaded guilty to Information 09 Cr. 213 (DC), which charged him with securities fraud, investment advisor fraud, mail fraud, wire fraud, two counts of international money laundering, money laundering, false statements, perjury, false filings with the SEC, and theft from an employee benefit plan. Among other things, Madoff admitted that

despite his promise to clients and prospective clients that he would invest their money in shares of common stock, options, and other securities of well-known corporations, he in fact almost never invested those clients' funds in the securities as he had promised. Madoff further admitted that he attempted to conceal his fraud by, among other things, issuing false account statements and otherwise deceiving his investment advisory clients, lying to regulators, and wiring money between Madoff Securities and its London-based affiliate to create the impression that Madoff Securities was actually trading securities.

11. On June 29, 2009, the Honorable Denny Chin sentenced Madoff to 150 years' imprisonment and criminal forfeiture.

#### **THE DEFENDANT IN REM**

12. On or about January 6, 2014, JPMC entered into a Deferred Prosecution Agreement with the United States. Pursuant to that agreement, JPMC agreed to forfeit to the United States \$1,700,000,000, *i.e.*, the Defendant Funds. The Defendant Funds represent proceeds of Madoff's fraud, and constitute some of the billions of dollars that flowed through the Madoff Securities accounts at JPMC during the course of the Ponzi scheme, including from the point in October 2008 that JPMC reported to regulators in the United Kingdom that JPMC had suspicions about the legitimacy of Madoff Securities.

13. Specifically, on or about October 29, 2008, JPMC filed a report with the United Kingdom Serious Organised Crime Agency ("SOCA") pursuant to the U.K. Proceeds of Crime Act. In that report, which identified Madoff Securities as its "Main Subject – Suspect," JPMC reported that, among other things, "the investment performance achieved by [the Madoff Securities] funds . . . is so consistently and significantly ahead of its peers year-on-year, even in the prevailing market conditions, as to appear too good to be true – meaning that it probably is."

JPMC reported that, “[a]s a result,” it had submitted redemption requests for more than \$300 million of its own funds, which were invested in Madoff Securities “feeder” funds.

14. Between the date of JPMC’s report to SOCA and the date of Madoff’s arrest, the balance of the Madoff Securities accounts at JPMC fell from approximately \$3 billion, to approximately \$234 million as a result of withdrawals paid to Madoff’s investors as fictitious redemptions. The \$1.7 billion that JPMC has agreed to forfeit to the United States pursuant to the Deferred Prosecution Agreement represents a portion of the funds leaving the Madoff Securities accounts at JPMC from October 29, 2008 (*i.e.*, the date of JPMC’s report to SOCA) until Madoff’s arrest on December 11, 2008, and is in an amount substantially greater than the value of all the funds redeemed by JPMC from the Madoff-linked feeder funds.

15. The Deferred Prosecution Agreement and accompanying Statement of Facts are attached as Exhibit 1, and are incorporated fully into this Complaint as if they had been set forth herein.

**CLAIM FOR FORFEITURE**  
**(18 U.S.C. § 981(a)(1)(C))**

16. The Government incorporates by reference paragraphs 1 through 15 above as if fully set forth herein.

17. Pursuant to 18 U.S.C. § 981(a)(1)(C), “[a]ny property, real or personal, which constitutes or is derived from proceeds traceable to . . . any offense constituting ‘specified unlawful activity’ . . . , or a conspiracy to commit such offense,” is subject to forfeiture to the Government.

18. “Specified unlawful activity” is defined in 18 U.S.C. § 1956(c)(7) to include, among other things, any offense listed under 18 U.S.C. § 1961(1). Section 1961(1) lists,

among other things, violations of 18 U.S.C. §§ 1341 (mail fraud), 1343 (wire fraud), and “fraud in the sale of securities.”

19. Pursuant to 18 U.S.C. § 981(a)(2)(A), for purposes of the civil forfeiture statutes, “proceeds” refers to “property of any kind obtained directly or indirectly, as a result of the commission of the offense giving rise to forfeiture, and any property traceable thereto, and is not limited to the net gain or profit realized from the offense.”

20. As a result, the Defendant Funds are subject to forfeiture to the United States of America, pursuant to 18 U.S.C. § 981(a)(1)(C), because the Defendant Funds constitute property derived from Madoff’s mail fraud, wire fraud, and securities fraud.


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## REQUEST FOR RELIEF

WHEREFORE plaintiff, the United States of America, requests that judgment be entered in its favor and against the Defendant Funds, and that process issue to enforce the forfeiture of the Defendant Funds, and that all persons having an interest in the Defendant Funds be cited to appear and show cause why the forfeiture should not be decreed, and that this Court decree forfeiture of the Defendant Funds to the United States of America for disposition according to law, and that this Court grant the Government such further relief as this Court may deem just and proper, together with the costs and disbursements in this action.

Dated: New York, New York  
January 6, 2014

PREET BHARARA  
United States Attorney  
Attorney for the United States of America



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VERIFICATION

STATE OF NEW YORK )  
COUNTY OF NEW YORK :  
SOUTHERN DISTRICT OF NEW YORK )

PAUL M. TAKLA, being duly sworn, deposes and says that he is a Special Agent with the Federal Bureau of Investigation, and as such has responsibility for the within action; that he has read the foregoing Verified Complaint and knows the contents thereof, and that the same is true to the best of his knowledge, information, and belief.

The sources of deponent's information and the ground of his belief are official records and files of the United States, information obtained directly by the deponent, and information obtained by other law enforcement officials and representatives during an investigation of alleged violations of Titles 15, 18, and 31, United States Code.



PAUL M. TAKLA  
Special Agent  
Federal Bureau of Investigation

Sworn to before me this  
6th day of January, 2014:

  
NOTARY PUBLIC

