



Financial Crimes Enforcement Network

A bureau of the U.S. Department of the Treasury

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CONTACT: Steve Hudak

703-905-3770

JPMorgan Admits Violation of the Bank Secrecy Act for Failed Madoff Oversight; Fined \$461 Million by FinCEN

WASHINGTON, D.C. – The Financial Crimes Enforcement Network (FinCEN) today fined J.P. Morgan Chase Bank, N.A. \$461 million for willfully violating the Bank Secrecy Act (BSA) by failing to report suspicious transactions arising out of Bernard L. Madoff’s decades-long, multi-billion dollar fraudulent investment scheme. In consenting to the assessment of a civil money penalty, JPMorgan admitted to the facts set forth by FinCEN and that its conduct violated the Bank Secrecy Act.

“When JPMorgan suspected Mr. Madoff’s fraud, it focused on its own investment exposure and saved itself approximately \$250 million,” noted FinCEN Director Jennifer Shasky Calvery. “If it had given the same attention to its anti-money laundering responsibilities, it could have saved itself \$2 billion, and potentially saved thousands of other fraud victims untold misery and loss.”

From the 1970s until he was arrested in December 2008, Bernard L. Madoff committed a massive securities fraud scheme against investors that resulted in more than \$20 billion in losses to thousands of victims. JPMorgan, its predecessors and affiliates, had a long relationship with Bernard L. Madoff Investment Securities LLC (BLM), including holding the primary bank accounts in the United States used by BLM to facilitate its fraudulent investment scheme. In addition, from 2006 to 2008, JPMorgan also made its own investments in BLM’s so-called “feeder funds.”

In 2007, JPMorgan had concerns that BLM could be engaged in fraud that culminated in the identification of several “red flags” by 2008. These red flags included: (1) BLM’s investment performance appeared too good to be true; (2) BLM’s trading techniques and investment activity lacked expected transparency; (3) BLM used a small, unknown auditor; and (4) BLM repeatedly refused to provide full information to JPMorgan as part of its due diligence reviews. In the Fall of 2008, JPMorgan took steps to protect its own business interests yet failed to notify FinCEN of the same suspicious, potentially fraudulent, activities and failed to file any Suspicious Activity Report (SAR) with FinCEN as required by the BSA.

In October 2008, JPMorgan filed a SAR-equivalent with FinCEN's counterpart in the United Kingdom, the Serious Organised Crime Agency, identifying their concerns about potential fraud. JPMorgan did not file a SAR with FinCEN until after Mr. Madoff's arrest in December 2008. During the intervening time, JPMorgan redeemed approximately \$275 million of its own investments from the BLM feeder funds, which in turn drew the funds out of BLM's JPMorgan accounts in the United States. Mr. Madoff also drained billions of dollars out of BLM's JPMorgan accounts during this time period. When Mr. Madoff was arrested on December 11, 2008, JPMorgan booked a loss of approximately \$40 million, substantially less than it would have lost but for its transactions in the Fall of 2008.

FinCEN worked in coordination with the U.S. Attorney's Office for the Southern District of New York (SDNY) and the Office of the Comptroller of the Currency (OCC). FinCEN has determined that the penalty in its matter will be \$461 million, based on the suspicious transactions that flowed through Mr. Madoff's primary account at JPMorgan during 2008. The OCC will collect a \$350 million fine. SDNY will collect \$1.7 billion through asset forfeiture and has stated that the funds collected will be contributed to the recovery fund for Mr. Madoff's victims. To ensure the maximum amount of money for the victims, FinCEN deemed its penalty satisfied by JPMorgan's payment to SDNY. In total, JPMorgan has agreed to a combined collection amount of \$2.05 billion.

FinCEN's Enforcement Division, established in June 2013 as part of a reorganization, handled this matter. The Enforcement Division is comprised of an elite group of personnel who seek to protect the U.S. financial system from being exploited by illicit actors. Its efforts are focused on: compromised financial institutions and their officers, managers, and employees; compromised jurisdictions; and third party money launderers. The division has a broad array of enforcement authorities to target both domestic and foreign actors affecting the U.S. financial system.

FinCEN's anti-money laundering regulations require financial institutions to report transactions to FinCEN that the financial institution "knows, suspects, or has reason to suspect" are suspicious. Among other things, a transaction is "suspicious" if it involves funds derived from illegal activities, or is conducted to disguise the funds derived from illegal activities, and the financial institution knows of no reasonable explanation for the transaction. FinCEN then makes these suspicious activity reports available to law enforcement and regulators, such as the Securities and Exchange Commission, to pursue appropriate enforcement action.

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FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

Attachments:

Director Shasky's remarks at SDNY's January 7th press conference.