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SEC charges Madoff-linked firm, adviser with fraud

By MARCY GORDON

WASHINGTON (AP) — Federal regulators filed securities fraud charges Monday against a prominent California investment adviser and a New York brokerage firm said to be secretly controlled by Bernard Madoff, accusing them of funneling billions of dollars from investors into Madoff's Ponzi scheme.

The Securities and Exchange Commission announced civil fraud charges against New York-based Cohmad Securities Corp., its chairman, Maurice "Sonny" Cohn, his daughter, Chief Operating Officer Marcia Cohn, and vice president and broker Robert Jaffe. Named in a second SEC lawsuit was investment adviser Stanley Chais, a longtime Beverly Hills philanthropist, who allegedly oversaw three funds that invested all of their assets — nearly \$1 billion — with Madoff.

While channeling billions in investor funds to Madoff, the associates together collected several hundred million dollars in fees from the now-disgraced money manager, the SEC alleged.

They were crucial to the success of Madoff's \$50 billion fraud scheme, targeting affluent yet financially unsophisticated investors by burnishing the impression that one could only get in as an investor with Madoff with special access and as a favor, the regulators said. Cohmad and Chais were said to have gained nearly all their revenue from introducing investors to Madoff in a well-oiled marketing operation.

The SEC move widened the circle of players around Madoff who have been charged by the government in what may be one of the biggest investment frauds in history, spreading out from Madoff himself and his longtime accountant, who was arrested in March on criminal fraud charges.

Jaffe and Chais, through their attorneys, disputed the SEC's allegations.

Madoff co-owned and secretly controlled Cohmad and used it to procure a steady stream of funds for his multibillion-dollar fraud, the SEC said. Cohmad's main office was in the Lipstick Building on Manhattan's Third Avenue — the same address as Madoff's investment and securities brokerage firms.

The agency's lawsuits were filed in federal court in Manhattan. One accuses Cohmad, the Cohns and Jaffe of actively marketing Madoff's funds to prospective investors "while knowingly or recklessly disregarding" facts that indicated he was running a fraud. A second suit alleges that Chais committed fraud by misrepresenting his role in managing the three funds' assets and providing account statements to investors that he should have known were false.

The SEC is seeking injunctions against the defendants as well as unspecified civil fines and restitution of allegedly ill-gotten profits.

"Madoff cultivated an air of exclusivity by pretending that he was too successful to trouble himself with marketing to new investors," SEC Enforcement Director Robert Khuzami said in a statement. "In fact, he needed a constant inflow of funds to sustain his fraud, and used his secret control of Cohmad to obtain them."

Also Monday, the court-appointed trustee overseeing the liquidation of Madoff's assets said he had filed a complaint in bankruptcy court in Manhattan against Cohmad, the Cohns and Jaffe. It alleges that Madoff's firm paid Cohmad more than \$100 million for recruiting unsuspecting investors to infuse the Ponzi scheme with billions of dollars. Trustee Irving Picard has filed similar complaints against other big money managers — including Chais — and investors in recent months in an aggressive, far-reaching bid to retrieve funds to pay off thousands of claims from cheated Madoff clients. Chais has denied any wrongdoing.

"Although Madoff stated he was operating alone, our investigation has yielded significant evidence that, in fact, a variety of other people helped Madoff prey on innocent victims," David Sheehan, a lawyer for Picard, said in a statement.

Chais has portrayed himself for the past 40 years as an investment "wizard," who managed hundreds of millions of dollars of investor funds in the three partnerships, according to the SEC. In truth, he was little more than a middleman who merely turned over all of the funds' assets to Madoff while charging the funds more than \$250 million in fees, the agency said. Since the early 1970s, Chais was one of the biggest "feeders" of funds to Madoff, the SEC said.

Chais's attorney, Eugene Licker, said Chais "is solely a victim and has faith that the judicial system will allow him to fight these reckless charges and restore his hard-earned good name."

The SEC's allegations "paint a distorted and false picture of Stanley Chais, borrowing liberally from baseless allegations by private plaintiffs trying to benefit themselves," Licker said in a statement. "Like so many others, Mr. Chais was blindsided and victimized by Bernard Madoff's unprecedented and pervasive fraud."

Licker said Chais and his family "have lost virtually everything — an impossible result were he involved in the underlying fraud."

The SEC, however, maintains that from 1995 to 2008, Chais and members of his family withdrew about \$500 million more than they had invested with Madoff.

Attorneys for the Cohns didn't return telephone calls seeking comment. Maurice Cohn, 78, lives in Manhasset, N.Y.; Marcia Cohn, 49, is a resident of New York City.

Jaffe, 65, who lives in Palm Beach, Fla., previously headed Cohmad's Boston office and is said by the SEC to have brought more than \$1 billion from investors into the Madoff fund. His lawyers, Stanley Arkin, Howard Kaplan and Peter Pope, said in a statement that the SEC's suit "smacks of impulsiveness and efforts at self-justification."

"It is unfair, baseless in the law, and is inaccurate in its understanding of the facts and of Mr. Jaffe," they said.

Jaffe is a son-in-law of Carl Shapiro, a prominent Boston-area businessman and philanthropist whose family was said to have lost hundreds of millions of dollars from their investments with Madoff.

Madoff, 71, has been jailed since March, when he pleaded guilty to securities fraud, perjury and other charges. He admitted stealing billions of dollars from some investors to pay fraudulent profits to others. He faces up to 150 years in prison and is scheduled to be sentenced next week in Manhattan federal court.

The thousands of investors who lost money included ordinary people, Hollywood celebrities and scores of famous names in business and sports — as well as big hedge funds, international banks and charities in the U.S., Europe and Asia.

"This is what will be the beginning of a number of lawsuits brought by the trustee and the SEC to recover from the commission feeders the substantial revenue that they earned off the Madoff victims," Jerry Reisman, an attorney representing aggrieved Madoff investors, said in a statement. "It was this group of money seekers who assisted Madoff to prey off the victims and perpetrate his fraud."

Massachusetts' secretary of state, William Galvin, has had Cohmad's registration as a securities broker revoked, saying the firm had refused to provide information about its connections to Madoff. Cohmad was fined \$100,000.

Cohmad has denied Galvin's claim that it appeared to have received more than \$67 million from Madoff's investment firm in "account supervision" fees from 2000 to 2008, representing a large share of Cohmad's income.