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MARKETS

Madoff Fraud Claims Swell

Justice Department Received Far More Requests Than Bankruptcy Trustee Allowed

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By **DAN STRUMPF** [CONNECT](#)

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Thousands more victims of Bernard L. Madoff's Ponzi scheme could receive compensation for their losses based on the preliminary findings of a new claims process administered by the Justice Department. Dan Strumpf reports. Photo: Getty.

Thousands more victims of Bernard L. Madoff's Ponzi scheme could receive compensation for their losses based on the preliminary findings of a new claims process administered by the Justice Department.

Richard C. Breeden, the "special master" in charge of the Justice Department effort, said the large number of claims suggests the fraud was even bigger than previously known.

The early findings contrast with the results of a yearslong recovery process led by bankruptcy trustee [Irving Picard](#), which took a more narrow view of who qualifies as a victim of the fraud. The differing approaches of the two trustees, who oversee separate pots of money, highlight the complex nature of the Madoff recovery, which remains in process more than five years after the Ponzi scheme was discovered.


Mr. Picard only allowed claims from those who invested with Mr. Madoff directly. Mr. Breeden is reviewing claims from anyone who alleged to have had money invested with Mr. Madoff, even through an intermediary like a feeder fund.

Mr. Breeden, a former chairman of the Securities and Exchange Commission, was appointed by the U.S. attorney's office in Manhattan in 2012 to distribute money recovered in various Justice Department actions related to the Madoff fraud.


He said Tuesday he has received more than 50,000 claims from purported victims of the fraud—though he added that a large number of claims are likely to be ineligible, duplicate or fraudulent.


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Mr. Breeden said the victims claimed more than \$40 billion in losses, a sum expected to shrink but still much larger than the \$17.5 billion in principal Mr. Picard calculated was lost.

"Everybody knows that this was a terrible crime," Mr. Breeden said in an interview. "But, frankly, the scale of it—in the number of people and the dollars and the dispersion around the world—all were bigger than anybody ever knew."

Mr. Madoff was arrested Dec. 11, 2008, and eventually accused of masterminding the biggest Ponzi scheme in history. He pleaded guilty in 2009 and was sentenced to 150 years in prison.

Mr. Breeden is in charge of returning more than \$4 billion recovered in connection with Mr. Madoff's fraud. That pool of money includes a \$1.7 billion settlement announced in January with J.P. Morgan Chase & Co. over allegations the bank failed to police Mr. Madoff's activities, as well more than \$2 billion from settlement with the estate of Jeffrey Picower, a longtime friend and investor with Mr. Madoff.

Mr. Picower was declared dead after being found in his pool in October 2009. His estate settled for \$7.2 billion, with the bulk of the money going to Mr. Picard's recovery effort.

Nearly 70% of the claims received by Mr. Breeden came from individuals who have yet to receive any money in recoveries, he said. Mr. Breeden said he received 51,700 claims and that almost 62% of the individuals who filed live outside the U.S.

Mr. Breeden will need to take care to verify the claims, said Kathy Bazoian Phelps, a partner at Diamond McCarthy LLP in Los Angeles who specializes in bankruptcy law and has written extensively about Ponzi schemes. "Until that's done, it's very difficult to assess the accuracy of the numbers," she said.

Mr. Breeden acknowledged that a large number of claims are likely to be thrown out. Claims came from as far away as Cambodia, Kazakhstan and Zimbabwe. Two came from Madagascar, he said.

"We know that a significant number of people and dollars will get washed out," Mr. Breeden said. Still, he said, "the Madoff fundraising operation was an efficient dragnet...trying to sweep in high-net-worth investors from every country around the world, seemingly." Mr. Breeden declined to say what portion of the claims might be disqualified and said he didn't have a timeline for processing the claims or making payments to victims.

Mr. Breeden's process for reimbursing Madoff victims differs from that of Mr. Picard. By focusing on the individuals and investment firms who directly invested with Mr. Madoff and lost more than they earned, Mr. Picard narrowed the number of customers to 2,518, out of the 16,519 claims he received.

On Tuesday, a spokeswoman for Mr. Picard's office said in a statement, "If the Special Master has received more than 51,000 claims, the vast majority of them never dealt directly with" Mr. Madoff's securities firm and therefore there are no records identifying them as clients. As a result, those alleged victims are unknown to Mr. Picard's office. "We wish the Special Master success in identifying appropriate recipients of the monies under his care and stand ready to assist him in that endeavor," the statement said.

Ms. Phelps, the Los Angeles lawyer, noted that the two trustees are following different guidelines. Mr. Breeden's approach is dictated by the law surrounding asset forfeitures, which obligates him to return money to victims. Mr. Picard is bound to return money to customers.

"The forfeiture guidelines have a very clear and distinct definition of a 'victim,'" she said. "A victim has a different definition than customer and is by nature a much broader group of people."

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