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Credit Suisse Said to Have Urged Clients to Dump Madoff Funds

By Cynthia Cotts, Katherine Burton and Elena Logutenkova

Jan. 7 (Bloomberg) -- Credit Suisse Group AG, whose clients lost almost $1 billion in Bernard Madoff's alleged swindle, urged customers more than eight years ago to withdraw cash from his firm because the bank couldn't determine how he made money, said three people familiar with the matter.

Oswald Gruebel, who headed the private-banking unit of Switzerland's No. 2 lender at the time, made the recommendation after meeting Madoff in New York in June 2000, the people said, speaking anonymously because the details were private. Credit Suisse customers proceeded to redeem about $250 million from Madoff-run funds, half the total held by the bank's clients, the people said.

Credit Suisse, based in Zurich, risked alienating clients who were reaping annual returns from Madoff of about 11 percent a year, said two of the people at the meeting, which included executives from Fairfield Greenwich Group, a so-called feeder fund for Madoff. The bank couldn't force clients to pull out their money.

"Some investors allowed greed to overrule the advice of their advisers," said Ron Geffner, a lawyer at New York-based Sadis & Goldberg LLP. Funds removed from Madoff's firm as early as 2000 probably won't have to return it, Geffner said.

More Red Flags

Corene Sullivan, a spokeswoman for Credit Suisse, said Credit Suisse didn't actively sell stakes in funds that fed into Madoff's firm, and that the funds offered by the marketers weren't on the bank's recommended list.

Madoff's lawyer, Ira Sorkin, didn't immediately return phone calls left at his office and on his cell phone. David Sheehan, an attorney at Baker Hostetler who represents Irving Picard, the trustee overseeing the liquidation of Madoff's brokerage, didn't reply to calls and emails seeking comment.

Gruebel, 65, and two other Credit Suisse executives at the meeting with Madoff raised concern about his use of a little- known auditor who had just one client, two of the people said. The bank also worried about why Madoff served as the custodian of his clients' assets, they said.

Madoff wouldn't tell Gruebel how much money he managed, saying only that he had 12 people working with him to manage the strategy, along with six senior traders, the people said. Madoff said he didn't charge clients fees to manage their money, earning a profit instead on trading commissions that equaled as much as 3 percent of assets.

Gruebel declined to comment. He became CEO of Credit Suisse in 2004 and retired in 2007, after doubling the banks earnings in three years. Madoff, 70, was arrested last month and charged with running a $50 billion Ponzi scheme. He is free on bail.

Rebate Fees

The recommendation eight years ago may have angered some of the lender's own bankers, who were profiting from rebate fees, known as retrocessions, which were paid to them by groups such as Fairfield that marketed the funds. Sullivan, the Credit Suisse spokeswoman, declined to comment on the rebate fees.

"These retrocessions are an open secret in the private banking world, and in most cases they aren't passed on to clients," said Bernhard Bauhofer, founder of Wollerau, Switzerland-based consulting firm Sparring Partners GmbH. "The Swiss private banks depend a lot on these."

European banks have reported at least $12 billion of client exposure to Madoff. Lenders such as Credit Suisse, the U.K.'s HSBC Holdings Plc and Banco Santander SA of Spain say clients invested almost $5 billion with Madoff.

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