

## Banks in damage limitation exercise

### News analysis

**Mark Mulligan** reports on the restitution plans following the Madoff scandal

A number of banks involved in the Madoff scandal have offered forms of compensation to investors.

Although relatively quick off the mark, Spanish bank Santander was not the first to seek to protect its image.

Celfin Capital, a mid-sized investment bank in Chile, announced a restitution plan for its own clients on December 20 last year, about a week after the alleged swindle was revealed.

It is returning about \$11m – the total original sum – to 100 investors.

The National Bank of Kuwait, meanwhile, has returned \$50m to affected investors.

In all cases – and more are likely to follow as lawyers around the world step up the pressure on financial institutions – the banks are looking to limit the damage to their reputation, and head off embarrassing, not to mention expensive, lawsuits.

The head of Celfin, which distributed Madoff-linked structured notes from BBVA, another Spanish bank, to a small group of clients was frank about his motives for the rapid compensation offer.

“One of the things we do



Celfin Capital, based in Santiago, Chile, moved quickly to announce a restitution plan in response to Madoff's alleged 'Ponzi' scheme

Alamy

is invest money on behalf of our clients,” chairman Juan Andrés Camus told the Financial Times.

“Obviously, we can make mistakes sometimes: a share or a bond might do something that we hadn't bet on, or a certain market goes in the opposite direction to our expectations. But that's just part of the business.

“However, the Madoff case was a lot more complicated for us. Because we saw that

we had been recommending to clients – and placing in their hands – a product which had absolutely nothing behind it – just air. And this made us feel very uncomfortable.”

Authorities believe a small group of unrelated investors placed money with Madoff through offshore banks accounts to avoid taxes in Chile.

The country's securities regulator is currently investigating this, along with

other aspects of the case.

Santander, whose clients lost €2.33bn (\$2.9bn), announced its compensation offer more than a month after Celfin.

It says it will repay individual – but not institutional – investors in its Optimal Strategic US Equity Funds via preference shares in the bank, paying an annual 2 per cent coupon.

Lawyers acting for some of the clients have dismissed the offer as inadequate, pre-

ferring a cash settlement. Cremades & Calvo-Sotelo, a Spanish law firm representing hundreds of Madoff victims, yesterday stepped up the pressure, creating a global alliance of lawyers to co-ordinate the fight for compensation.

Always the deal-maker, Santander has also spotted new business opportunities amid the Madoff mess: favoured clients will be able to use the preference shares as collateral for new low-in-

terest loans from the bank.

Bankers say this is standard practice when financial houses opt to compensate investors for soured deals: in a regulatory filing on Monday, Santander also offered to accept shares in a troubled real estate fund as collateral towards new lending.

“When they are good customers, there are certain things you can do for them,” said one banker in Madrid.