

the global financial crisis. **Page 3; Editorial Comment, Page 8;**  
[www.ft.com/lex](http://www.ft.com/lex);  
[www.ft.com/asiaweather](http://www.ft.com/asiaweather)

## Tomorrow

Rogues gallery:  
traders who  
went off  
the rails

**FT Weekend**  
Life & Arts



Property bargain  
hunters  
head for  
London

**FT Weekend**  
House & Home



Jancis Robinson:  
the 2007  
Burgundy  
vintage

**FT Weekend**  
Life & Arts



Wells learned of the losses after shareholders approved the deal in December, and subsequently sought government aid to close

Many expect to lose their jobs as Merrill loyalists take control.

**Lewis in line of fire, Page 16**

whose nomination was supported yesterday by a clear majority of the Senate's finance committee, said: "President Obama - backed

in order to do more good than harm'

# FINANCIAL TIMES 23/01/2009

## Santander fund praised 'impeccable' Madoff

### Documents cast doubt on bank's risk controls

**By Joanna Chung in New York, Victor Mallet in Madrid and Brooke Masters in London**

A fund controlled by Santander, one of Europe's biggest banks, heaped praise on Bernard Madoff (right) weeks before his arrest for an alleged \$50bn fraud, calling his market timing "impeccable" in a report to investors that lawyers say raises questions about the bank's risk controls.

Asset managers at the Spanish bank's Optimal hedge fund investment arm, whose clients were among the biggest losers in the Madoff scandal, told institutional investors they were impressed by Mr Madoff's ability "to find great entry and exit points to benefit investors".

The disclosure of the report's contents casts doubt on the effectiveness of Santander's risk management and due diligence operations. Some lawyers said fund reports such as Optimal's would

provide ammunition to investors wanting to sue third parties that sold them the Madoff fund.

"The documents will be devastating," said Jacob Zamansky, a lawyer representing clients considering taking legal action against Santander, among others. Yesterday, Cremades & Calvo-Sotelo, a Spanish law firm, said it had formed a group of 100 Spanish and Latin American clients affected by the scandal, which would seek negotiations with Santander over compensation.

Hedge funds, banks and asset managers that placed funds with Mr Madoff's alleged Ponzi scheme issued similarly rosy assessments of their performance, US investor lawsuits said.

The Spanish bank is the eurozone's largest by market capitalisation and Emilio Botín, its chairman, has long prided himself on its risk controls.

Santander and Optimal emphasised in their literature the quality and scope of their risk management and due diligence, including regular visits and "in-depth analysis" of Mr Madoff's trading strategy.

The report to investors said Optimal's Strategic US Equity Fund, invested entirely with Mr Madoff, was worth \$3.21bn (£2.5bn) at the end of September. Santander has since admitted client losses of up to €2.33bn. Investigators now suspect Mr Madoff never executed trades and manufactured his performance.

Spanish bankers told the FT that Santander was sufficiently concerned about Optimal's

client exposure to Mr Madoff that it sent Rodrigo Echenique, a director of the bank and close associate of Mr Botín, to meet Mr Madoff on November 27, a fortnight before he was arrested.

What happened at the meeting is disputed. One Santander client believed the bank tried to withdraw Optimal's funds and said that may have prompted Mr Madoff allegedly to confess to his sons about the fraud. But a banker with knowledge of the meeting described it as a "routine" inspection and made no mention of a withdrawal request.

Another Optimal-Santander document said Madoff Securities diversified risk by having more than 12 trading counterparties. However, other banks have cited the fact Mr Madoff was not a known counterparty as one reason they did not deal with him.

Santander refused to comment on the documents. It said there were currently "no legal actions" against it related to the fund.



**Warning in small print, Page 16**  
[www.ft.com/madoff](http://www.ft.com/madoff)