FOR IMMEDIATE RELEASE
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JEFFERIES LLC AGREES TO PAY $25 MILLION RELATED TO FRAUDULENT RMBS TRADING ACTIVITY

WASHINGTON, DC - Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Deirdre M. Daly, United States Attorney for the District of Connecticut; and Patricia M. Ferrick, Special Agent in Charge of the New Haven, Conn., Division of the Federal Bureau of Investigation, today announced that New York-based investment bank and broker-dealer Jefferies LLC (Jefferies) and the U.S. Attorney’s Office have entered into a non-prosecution agreement relating to Jefferies’ trading in residential mortgage-backed securities (RMBS), including with funds created and funded through the Troubled Asset Relief Program by the federal government. As part of this agreement, Jefferies will pay a monetary penalty of $25 million.

“The government absolutely expects that businesses dealing with federal TARP programs, funded by taxpayers and designed to address the financial crisis, will ensure that they and their employees conduct themselves using strict adherence to the laws of this country and the highest standards of ethics, integrity, and cooperation,” said Christy Romero, Special Inspector General for TARP (SIGTARP). “When Jefferies learned of a suspected fraud scheme by one of its senior traders, Jesse Litvak, to cheat and overcharge TARP-funded entities and that Jefferies supervisors were aware of the lies but turned a blind eye, Jefferies chose to do the right thing. Jefferies cooperated with the government, conducted an internal investigation, acknowledged the harm done, agreed to pay for that harm, and took responsibility to make necessary changes to its staffing as well as to its compliance policies, procedures, and internal controls.”

“Employees in Jefferies’ fixed income division repeatedly misled their own customers,” said U.S. Attorney Daly. “The sole purpose of this deception was to increase profit to Jefferies and its employees. Not only did management tolerate these illegal practices, but the culture within the division encouraged the fraudulent conduct. By entering into this agreement, Jefferies recognized the seriousness of the problem and committed to change. While our investigation of individuals continues, we agreed to this corporate resolution in order to reflect the company’s cooperation and to avoid further damage to its many blameless employees and shareholders. Broker-dealers are on notice that lying to customers to increase profits is a crime, and are strongly encouraged to root out and report such misconduct to avoid significant consequences. We thank SIGTARP, Connecticut FBI, and the Boston Regional Office of the SEC for their excellent work on this important case.”

In response to the 2008 financial collapse, the U.S. Department of Treasury introduced the Legacy Securities Public-Private Investment Program (PPIP) and used more than $22 billion of bailout money from the Troubled Asset Relief Program (TARP) to restart the trading markets for many troubled securities, including certain kinds of RMBS. The program created nine PPIP funds, and more than 100
firms applied to manage the funds. TARP infused between $1.4 billion and $3.7 billion of bailout money into each of the PPIP funds that was to be invested alongside private capital.

Jefferies’ Mortgage and Asset-Backed Securities Trading group traded RMBS on the secondary market by buying and selling RMBS to customers, including Legacy Securities Public-Private Investment Funds. In approximately 2009, certain Jefferies’ employees in that group fraudulently increased the profitability of certain RMBS trades for Jefferies in various ways, including by misrepresenting the RMBS seller’s asking price to the buyer and by misrepresenting the buyer’s asking price to the seller. Jefferies’ employees also concealed that RMBS were being sold from Jefferies’ inventory in order to charge buyers an extra commission to which Jefferies was not entitled.

At times, members of Jefferies’ management in the fixed income division became aware that Jefferies employees were making misrepresentations to customers and did nothing to stop it. The fraudulent activity continued, and ultimately, six of eight managers of federal taxpayer TARP funds were overcharged.

Under the terms of the non-prosecution agreement, which was entered into on January 29, 2014, Jefferies agreed to pay a total penalty of $25 million. The penalty includes up to $11 million in restitution to victims and up to a $4,200,402 penalty to the U.S. Securities and Exchange Commission (SEC). Jefferies also agreed to address deficiencies in the compliance and ethics practices and policies of its Mortgage and Asset-Backed Securities Trading group. These measures include Jefferies’ agreement to retain an Independent Compliance Consultant to conduct a review of Jefferies’ policies and procedures for detecting and preventing fraud in connection with the purchase or sale of RMBS.

The agreement announced today addresses only the corporate criminal liability of Jefferies LLC, not potential criminal charges for any individual. The criminal investigation of individuals associated with Jefferies’ RMBS trading activities remains active and ongoing. Jefferies has cooperated with the federal criminal investigation and has already implemented certain compliance improvements.

On March 7, 2014, a federal jury in New Haven found Jesse C. Litvak, a registered broker-dealer and former managing director at Jefferies, guilty of multiple offenses, including TARP fraud, involving a scheme to defraud customers trading in RMBS.

This matter is being investigated by SIGTARP and the Federal Bureau of Investigation and is being prosecuted by Assistant U.S. Attorneys Jonathan Francis and Eric Glover.

This matter was investigated in coordination with the RMBS Working Group, a joint federal and state initiative created to investigate those responsible for misconduct contributing to the 2008 financial crisis. RMBS were pools of mortgages deposited into trusts and then sold as securities to investors who were to receive a stream of income from the mortgages packaged in the RMBS. The RMBS Working Group, which is chaired by Attorney General Eric Holder, brings together more than 200 attorneys, investigators, analysts, and staff from dozens of state and federal agencies including the Department of Justice, ten U.S. Attorneys’ Offices, SIGTARP, the FBI, the Securities and Exchange Commission, the Department of Housing and Urban Development (HUD), HUD’s Office of Inspector General, the Federal Housing Finance Agency’s Office of Inspector General, the Federal Reserve Board’s Office of Inspector General, the Recovery Accountability and Transparency Board, the Financial Crimes Enforcement Network, and more than ten state Attorneys General offices around the country. The RMBS Working Group is part of President Barack Obama’s Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes.
SIGTARP is a member of the task force. To learn more about the RMBS Working Group and the President’s Financial Fraud Enforcement Task Force, please visit www.StopFraud.gov.

**About SIGTARP**

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP.

To report suspected illicit activity involving TARP, dial the **SIGTARP Hotline**: 1-877-SIG-2009 (1-877-744-2009).

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