Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—D. Conn.: Litvak found guilty of TARP-related securities fraud,(Mar. 10, 2014)

By Mark S. Nelson, J.D.

A federal court jury in Connecticut has found Jesse C. Litvak guilty of 10 counts of securities fraud and of other charges related to an alleged scheme to defraud entities that participated in investment funds created under the federal government's Troubled Asset Relief Program (TARP) during the 2008 financial crisis (*U.S. v. Litvak*, March 7, 2014).

"Today's verdict shows plainly and powerfully that Wall Street professionals are not above the law," said U.S. Attorney Deirdre M. Daly. "A lie is a lie, and fraud is fraud. The jury rightly rejected Litvak's shameful claim that he did nothing wrong because many on Wall Street engage in the same conduct," Daly added.

Chief Judge Janet C. Hall of the U.S. District Court for the District of Connecticut, gave the jury its charge last Wednesday, explaining in detail what the government had to prove in order for it to convict Litvak. The charge covered 10 counts of securities fraud, one count of TARP fraud and four counts of making false statements to the U.S. The jury convicted Litvak on all counts last Friday, after deliberating for two days.

The January 2013 grand jury indictment described an alleged scheme by Litvak involving the Public-Private Investment Program (PPIP) that was part of the Treasury Department's effort to allocate funding from the TARP to enliven the residential mortgage-backed securities (RMBS) market so struggling lenders could make new loans.

According to the indictment, Litvak allegedly took advantage of Public-Private Investment Funds (PPIFs) that participated in the PPIP, including six TARP-funded PPIFs and 14 privately funded, non-PPIP entities. The PPIP/PPIF program totaled $20 billion in TARP funds, with 75 percent of these dollars paid by taxpayers. TARP

allocated $1.4 billion to $3.7 billion to each PPIF. Both sets of Litvak's alleged victims included many of the largest and best-known fund companies.

The indictment alleged that Litvak, who worked at registered broker-dealer Jefferies & Co., Inc., (Jefferies) from April 2008 until his termination in December 2011, used his job as senior trader and managing director to get secret, unearned compensation for himself and Jefferies by misrepresenting to customers that acquisition costs for certain RMBS being traded were higher than in actuality. He also allegedly misrepresented " inventory" trades as "bid list" or "order" ones in order to get compensation not permitted to broker-dealers on inventory trades.

The indictment also alleged that Jefferies and Litvak's manager, known only as Supervisor #1, kept tabs on trades and issued annual profit goals for the mortgage and asset-backed securities group at Jefferies, for which Litvak worked. Litvak specialized in one or more types of RBMS. Litvak allegedly knew that revenues for his trades were falling over the years, resulting in a $10-million loss in 2011. Litvak allegedly caused $2 million in losses to customers.

The case is No. 3:13-CR-19.

Attorneys: Andrew M. Zeitlin (Shipman & Goodwin) for Jesse C. Litvak. Eric J. Glover, U.S. Attorney's Office, for the U.S.

Companies: Jefferies & Co., Inc.; AG GECC PPIF Master Fund, L.P.; AllianceBernstein Legacy Securities Master Fund, L.P.; BlackRock PPIF, L.P.; Invesco Legacy Securities Master Fund, L.P.; RLJ Westem Asset Public/Private Master Fund, L.P.; Wellington Management Legacy Securities PPIF Master Fund, LP; DE Shaw & Co.; DW Investment Management LP; EBF & Associates; Magnetar Capital; MFA Financial, Inc.; Monarch Alternative Capital; Oak Hill Capital; Pine River Capital Management; Putnam Investments; QVT Financial; Red Top Capital Investments; Soros Fund Management LLC; Third Point LLC; York Capital Management L.L.C.

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