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Ponzi Schemes - Not taken seriously in Luxembourg?

Our article last year delved into the history of bubble investment schemes and Ponzi schemes. Since then, a flurry of activity in Luxembourg has drawn the spotlight on how a financial centre specialising in UCITS and Private Equity & Real Estate ("PERE") funds is becoming a haven for Ponzi schemes, with the regulator failing to act...

Investment plausibility can be exploited when greed is fueled, often with confused regulators not knowing where to look, despite their suspicions - Charles Ponzi became noted in 1920, in Boston, for his supposed arbitrage scheme, which ultimately proved to be merely a masquerade for paying off early investors with the deposits of later investors. The Ponzi Scheme is named after him.

"A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for early investors by acquiring new investors. This is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers."

Let's provide some examples in the USA, from my home town of Norwalk, Connecticut – in "Hedge Fund Valley" between New York and Boston :

James Booth, 3.5 years imprisonment in Federal Prison, $ 5 million defrauded.
https://www.justice.gov/usao-ct/pr/norwalk-accountant-sentenced-more-8-years-federal-prison-running-ponzi-scheme in 2020

James Nielsen, 8+ years imprisonment in Federal Prison, $ 6+ million defrauded.
https://www.justice.gov/usao-ct/pr/norwalk-accountant-sentenced-more-8-years-federal-prison-running-ponzi-scheme in 2016

More recently, Bernie Madoff literally "made off" with US$ 65 billion, under the very noses of the regulators he was a former chairman of. He received a 150 year prison sentence. The US is sensitive to Ponzi schemes..

And so to Luxembourg.. and Luxalpha (Madoff), LFP I (unknowns), now Credit Suisse Virtuoso & Nova (Greensill "prospective" receivables)

Madoff's footprint, via $ 2 billion UBS's Luxalpha fund, is a disgraceful story of concealment, regulatory hypocrisy, and a lawyer feeding frenzy for 13 years with not one cent paid back to investors. In 13 years!! The list of persons sanctioned by the regulator for investor deceit is errr... non-existent.

The umbrella fund we are investigating in Luxembourg, LFP I, has not one but 4 identifiable Ponzi schemes. Overnight we have become the Luxembourg Ponzi experts, although of course Credit Suisse is seeking to give us stiff competition!

All 4 LFP I Ponzi funds had the following features :-

- monthly subscription/redemption liquidity, but investing in long term loans
- regular distributions to shareholders, mainly paid from new investor monies
- each fund advisor/sponsor hid their backgrounds – inexperience, mismanagement, fraud
- continuously rising share prices (NAV per share) driving investor demand to subscribe
- NAV per share calculated by an "independent" administrator who was actually a shareholder and with directors in the investment manager, essentially acting in concert
- a "big 4" auditor lending its name to the annual audited accounts, misquoting investment maturities, overlooking the clear signs of a Ponzi scheme – on 4 funds
- investor marketing representations mismatching with the reality of the actual investments, with investors "surprised" when informed of the investment portfolio invested in
- shareholder confidence bolstered by major institutional service providers and regulatory oversight
- investor complaints to the regulator "fobbed" off as they being "well-informed" investors – ignoring the fraud, not market risk, in these fund situations

Net result - € 100 million of losses, almost 400 angry and disillusioned investors, and almost 40 civil and/or criminal complaints and/or money laudering complaints, and lessons to be learned. Since the CSSF as regulator insisted on the Administrator becoming a shareholder and providing directors to the Investment Manager, (????), don't expect any sanctions or regulatory enforcment anytime soon! We note the monthly references in all fund marketing material to "independence of NAV accounting", as we shake our heads..

And this year's egg-on-face Ponzi is at the hands of the veritable Credit Suisse ("hey, if UBS can do it, so can we.."). Always with a lust for daft assets, Credit Suisse funded almost US$ 10 billion of "prospective" assets shoe-horned by Lex Greensill, via Luxembourg SPV's, into 2 Credit Suisse Luxembourg-regulated funds. **Naturally, these 2 funds had weekly and/or monthly liquidity, as part of the "smoke-and-mirrors" investment strategy.** Since these 2 funds were part of 2 umbrella fund strcutures, and able to generate double-counted fees, these 2 funds also attracted money from other Credit Suisse funds, so March 2021 saw 2 Ponzi schemes hit the wall and suspend NAV's with 6 Credit Suisse funds severely impaired as a result. (We call this leverage in the disaster industry..) **Even Softbank's $ 440 million cash injection last year, meant to pay out fund investors** but re-directed into Greensill Bank in Germany, couldn't keep the CS ships afloat – we note no NAV impairment as emergency funding was sought, so concealement clearly ran rife!!

We also refer to the "Sawtooth profile" - up, up, up every month, the NAV is montonically rising, until it dives straight towards zero in a matter of weeks of revelation and firings.

Close to $10 billion of Ponzi schemes, and a remarkably quiet regulator!! And the Luxembourg Prosecutor??

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