WSJ PRO
FINANCIAL REGULATION

For Banks, Old Ties Cast Long Shadows

By Aruna Viswanatha

Back in 2005, Jes Staley, then a senior executive at J.P. Morgan Chase & Co., traveled to Saudi Arabia and visited the Riyadh home of billionaire Mohammed al-Jarallah.

Construction of the King Abdullah Financial District in Riyadh, the Saudi capital. A Saudi family is suing J.P. Morgan over a soured business relationship.
FAISAL NASSER/REUTERS

Mr. Jarallah gave him a historic dagger. Mr. Staley wrote a month later to thank Mr. Jarallah for his hospitality. “We are proud to have you as an important client of our bank and are committed to continuing this relationship,” he wrote in a letter seen by The Wall Street Journal.

More than a decade later, a lawsuit over that relationship is snaking its way through California state court. The case is another sign that an aggressive precrisis push into newer markets continues to dog banks well after they have paid billions of dollars in fines and settlements over allegations they failed to adequately vet suspicious transactions, or pushed shoddy products on unwitting investors in the run-up to the financial crisis.

The suit, which named J.P. Morgan as a defendant earlier this year, accuses the bank of failing to alert the Jarallahs of suspicions it allegedly had about a fund in which the family invested more than $88 million, or to vet those investments. According to the lawsuit, the fund was a scam and the money is gone.

“It was Wild West behavior back in 2005 to 2007, promising anything to get money in the door,” Christopher Lilly, a lawyer handling the U.S. lawsuit for the Jarallah family, said in an interview.

In court filings, the bank described the matter as a business dispute between the family and the fund’s manager, and said the family and the fund essentially came to the bank as one corporate client.

A spokeswoman for J.P. Morgan declined to comment, as did a representative for Mr. Staley, who is now chief executive of Barclays PLC.

Goldman Sachs Group Inc. faces allegations at a trial under way in London that in 2008 it improperly sold Libya’s sovereign-wealth fund derivatives that lost $1.2 billion in value. The bank denies wrongdoing and says the Libyan fund understood the risks. That trial has opened a window into the bank’s efforts to woo the business: It awarded an internship to the younger brother of an official at the fund because it expected the brother to join the fund and potentially become an important client, a Goldman executive testified this month.

On Thursday, the Wall Street Journal reported that J.P. Morgan was nearing a deal to pay $200 million to resolve U.S. probes into whether the bank's hiring practices in Asia violated a U.S. foreign corruption law.

According to the Jarallahs' lawsuit against J.P. Morgan, Mr. Jarallah's son, Jarallah al-Jarallah, came to trust his college economics professor, who persuaded him to invest his family's money in a private-equity fund the professor ran. The family said in the suit they believed J.P. Morgan would collaborate with the fund to manage the Jarallah assets, as senior executives from the bank met with the family in London and New York, urging them to put their money into accounts at J.P. Morgan. Mr. Staley's 2005 letter to Mr. Jarallah refers to having met the son in New York.

The professor's wife worked at J.P. Morgan, and the lawsuit says the bank "actively solicited" the family to transfer its funds to the bank "in cooperation with" the fund. The Jarallahs said in the lawsuit they made the investments in part because they believed J.P. Morgan would look out for their interests. The family has also sued the professor. A lawyer for the professor said he and his client categorically denied the allegations and had "persuasive evidence" to support to the denials.

Jarallah al-Jarallah couldn't immediately be reached for comment. Mohammed al-Jarallah declined to comment, according to the lawyer, Mr. Lilly.

In an order last month, a California state court judge ruled that the Jarallahs could pursue some of their claims against J.P. Morgan, but hasn't ruled on the allegations themselves. The bank is expected to file its next response in court next month, and a trial is scheduled for March.

July 22, 2016