BOSTON (Reuters) - Massachusetts' top securities regulator sued Fairfield Greenwich Group, which funneled billions of dollars into Bernard Madoff's Ponzi scheme, accusing the hedge fund firm of misleading investors.

The lawsuit filed on Wednesday marks the first charges against one of Madoff's so-called "feeder funds" after the disgraced Wall Street legend pleaded guilty on March 12 to orchestrating Wall Street's biggest-ever investment fraud.

Massachusetts Secretary of State William Galvin said Fairfield Greenwich had lied about reviewing exactly how Madoff managed to generate strong and steady returns over decades even when the market was down.

"ln stark contrast to the promises made in its marketing materials and in statements to clients, Fairfield neglected to do any meaningful check into whether Madoff was actually making trades he said he was making, or actually holding the assets he said he was holding," Galvin said in his civil complaint.

Fairfield Greenwich's Sentry Funds had placed about $7.2 billion, or 95 percent of its assets, with Madoff.

Madoff has confessed to perpetrating a fraud worth as much $65 billion over 20 years, involving more than 4,800 client accounts.

A Ponzi scheme pays early investors returns from the investments made by later clients.

Galvin's complaint suggests Madoff's business was a windfall for Fairfield Greenwich co-founder Jeffrey Tucker, earning him about $100 million a year in 2006, 2007, and 2008.

Galvin did not say how many Massachusetts residents were affected or give a figure for how much money may have been lost. He is asking that Fairfield Greenwich return the fees that investors paid and the money they invested as well as pay an administrative fine.

The complaint also found that Fairfield principals "matter-of-factly discussed amongst themselves the risk that Madoff would 'blow up,' but did not disclose that risk to investors." Any worries were clearly brushed off because Fairfield Greenwich pumped $14.8 million into Madoff's business only days before the former Nasdaq stock market chairman was arrested in December.

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Most damning may be Galvin's allegations that Madoff prepared top executives at Fairfield in 2005 on how they should respond to federal securities regulators' questions about him. The move came after a
whistleblower told officials that he suspected Madoff was running a fraud.

"Obviously, first of all, this conversation never took place, Mark, OK?" Madoff told Fairfield Greenwich General Counsel Mark McKeefrey and Chief Risk Officer Amit Vijayvergiya, according to a transcript Galvin included in his complaint.

At one point on the call Madoff tells the men: "I mean, the idea is that it's - - is that we're not the one that's making the decision how much to --- I mean, you know - you know, we're not the one that's operating the fraud."

A spokesman for Fairfield Greenwich said the firm is reviewing the complaint and has no immediate comment.

"These are obviously very serious allegations when one starts accusing parties of colluding with respect to coordinating testimony to give to the Securities and Exchange Commission," said Brenda Sharton, who works on Madoff-related cases as a partner at law firm Goodwin Procter.

Galvin, one of the first state regulators to pursue the Madoff case aggressively, has long been concentrating on the so-called feeder funds and said he was looking at others as well.

His lawsuit came one day after a Connecticut judge froze the assets of Madoff's sons and five top hedge fund industry officials, including three Fairfield Greenwich executives.

Also on Wednesday, U.S. officials seized Madoff's 56-foot fishing yacht, named "Bull," in Florida.

(With additional reporting by Pascal Fletcher in Miami; Editing by Lisa Von Ahn)