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**Bernard L. Madoff**

January 16, 2004

United States Securities and Exchange Commission  
Office of Compliance Inspections and Examinations  
Washington, D.C. 20549

Attn: Eric J. Swanson

Dear Mr. Swanson:

In response to your letter dated January 6, 2004, we are providing you with the information requested. Pursuant to Rule 83, we hereby request confidential treatment of the schedules and data files provided. The enclosures and schedules provided will address question 1a-f. In response to question 2, requesting a description of the Split Strike Forward Conversion strategy, please also refer to the enclosures.

As executing broker, Madoff Securities is compensated thru execution commissions derived from the Split Strike Conversion strategy transacted over our Institutional Department's Execution Trading Platform. Also, please note we have no communications or disclosures from customers using this strategy to investors, owners or prospective investors or owners.

Question 3 asks for the identity of hedge funds managed or advised. Neither Madoff Securities, nor any person or entity affiliated with Madoff Securities, manages or advises hedge funds.

As a registered U.S. broker-dealer for 43 years, Madoff Securities has proudly provided quality market-making and execution services thru its state of the art trading technology and execution platforms to hundreds of broker-dealers and financial institutions around the world. A business model that has served us well.

During the past few years the dramatic impact that decimal pricing has had on security spreads combined with the difficulty of capturing non-directional market making order flow (industry statistics show that 40% of U.S. trading is professional/program trading) has created an industry wide shift away from dealer market-making to agency/riskless principal execution business models. While Madoff is still executing in excess of 200,000 broker-dealer market-making trades per day, representing the overwhelming majority of our trading activity, our reputation for providing efficient low cost executions has attracted the attention of the institutional community who are more than ever interested in finding low cost technology efficient execution services. Like everyone else in the industry, we will continue to adapt to the changing environment. That being said, we have absolutely no interest in becoming a manager or advisor to hedge funds.

If I can be of any further assistance please feel free to call.

Sincerely,



Bernard L. Madoff

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Enc.



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MADOFF\_EXHIBITS-03785

## Description of Split Strike Forward Conversion

The split strike forward conversion strategy is a variation of a 40 year old market neutral individual equity strategy. It is designed to have a predetermined downside risk whose profit potential comes from the market volatility of that security. ~~Focusing on a group of securities which comprise an index, rather than on an individual security, allows for the strategy to respond to the overall movement of the market.~~

To effect a split strike conversion, executions will typically occur in 45 to 50 securities, all of which must be resident in the upper tier of the Standard & Poor's (S & P) 100 Index. Each position to be executed is weighted by capitalization, so that the market movement of the collective securities has a correlation to the movement of the S & P 100 Index, which is a capitalization weighted index. ~~Because of that correlation, broad based index options can be used as a hedge to the underlying securities.~~

The specific model used to execute the split strike conversion orders of our clients has ~~client defined conditions that must exist at the time of execution.~~ These conditions dictate which securities are executed, and the quantity of each order. For example, only securities that are resident in the S & P 100 may be executed. More specifically, these securities must comprise more than 75% of the total capitalization of the S & P 100, which in effect, limits the order to a specific list of securities. Each of these orders are then dollar weighted proportionately to the market capitalization of that particular security within the S & P 100 Index to determine share quantity to be executed.

To better understand our role in providing execution platforms to Madoff Securities clients, I am providing a description of another product Madoff Securities Market Making Department provides to our broker-dealer clients. Please refer to enclosure labeled "Time Slicing."

## TIME SLICING

**Time Slicing** is an automated methodology for delivering average price executions. For **broker-dealers** looking for an effective way to “work” an order (typically a few thousand to a few hundred thousand shares) over part or all of the day, our execution platform is designed to reduce trading costs and eliminate the exposure to daily “market timing” risk. There are four Time Slicing products to choose from.

Time Slicing divides an order or basket of orders into smaller executions, spread throughout the day. The client chooses the amount of time between executions (every 15 minutes is standard) and the start and end time of their trade. Upon acceptance of their order (delivered to us via the Internet, phone or fax), ~~our proprietary system~~ executes each “slice” of the order at the specified intervals. When completed, they receive a single report for their entire order priced at the average of all the individual executions.

**The benefits of Time Slicing are clear:**

**Reduced trading costs.** Each slice has an opportunity for price improvement. Since they receive a single report, the expenses associated with multiple tickets are eliminated.

**Eliminates exposure to “market timing” risk.** At a time of increased volatility, Time Slicing offers a complete fill at an average price without having to predict the direction of the market. Time Slicing will dramatically lessen clients’ vulnerability to adverse intra-day price swings.

**Reduces the market impact of orders.** Time Slicing works orders over the course of the day. Most orders are divided into more than 25 pieces, virtually eliminating the market impact of walking into the marketplace with a large order.

**Technological Superiority.** Time Slicing is available over the Internet. Our proprietary web technology allows client to monitor the progress of their Time Slices online. Clients can enter large lists or single orders in a few quick and easy steps.

### **Four Choices for Order Handling in the Time Slicing family**

- a. **Standard Time Slice** – we will work an order from the time of receipt until the close, breaking it into equal segments and executing one piece every 15 minutes.
- b. **Custom Time Slice** – the client can define a start time, end time, and interval time; we will then work an equal segment on each interval within the defined time frame.
- c. **IntelliSlice** – the client can define a start time, end time, and interval time; we will then weight the number of shares to be executed at each interval based on the historical volume pattern of the particular stock.

- d. **d. Dollar Slice** – similar to the CUSTOM TIME SLICE (the client can define a start time, end time, and interval time), but client selects a dollar amount of stock rather than a shares amount. We will then work an equal segment on each interval within the defined time frame, adjusting the order size at the end to achieve the specified dollar amount.

## EXCEL FILE INDEX

Commission/Equivalent  
by client in USD by month (Response to questions 1b/1d)

CEQ\_CLI\_2003  
CEQ\_CLI\_2002  
CEQ\_CLI\_2001

Commission/Equivalent  
for SSC by symbol by month (Response to question 1b)  
equity

CEQ\_EQ\_2003  
CEQ\_EQ\_2002  
CEQ\_EQ\_2001

Commission/Equivalent  
for SSC by symbol by month (Response to question 1b)  
option

CEQ\_OP\_2003  
CEQ\_OP\_2002  
CEQ\_OP\_2001

Trading P/L\*  
Net of trade costs by month (Response to question 1a)  
by symbol, equity

PL\_EQ\_2003  
PL\_EQ\_2002  
PL\_EQ\_2001

Trading P/L\*  
by month by symbol, (Response to question 1a)  
option

PL\_OP\_2003  
PL\_OP\_2002  
PL\_OP\_2001

\* Data file from system will indicate profit to trading as a minus (-); losses to trading show  
no sign

LIST OF INSTITUTIONAL CUSTOMERS

SPLIT	CONVERSION	STRIKE	RATE	CLIENT
				NEI Ameristock
NO				4¢/sh Bank of Bermuda LTD Custody FBO Kingate Global Fund
SSC				4¢/sh Bank of Bermuda LTD Custody FBO Thema LTD
SSC				4¢/sh Banque Safra France SA
SSC				NET Banque Bruxelles Lambert SA
NO				NET Barclays Stockbrokers
NO				NET Boyle Marathon Fund
SSC				4¢/sh Bridgewater Pension Trustees LTD
NO				NET Brown Advisory Securities, LLC
NO				NET Capital International LTD
SSC				4¢/sh Citco Global Custody N V FBO Fairfield Sentry LTD
NO				NET City National Investments
SSC				4¢/sh Financiere Agache
SSC				4¢/sh Genesis Endowment BVI
SSC				4¢/sh Ginco Assurance Co LTD
SSC				4¢/sh Groupement Financier LTD
SSC				4¢/sh SG Hambros Bank & Trust
NO				NET Kasa Assoc
SSC				4¢/sh Kesagami Limited
NO				NET Rochdale Magna Fund
SSC				4¢/sh Robco LTD
NO				NET Salomon Smith Barney Inc
NO				NET Saritz Barbara Bank and Trust
SSC				4¢/sh Sway Pension Fund
SSC				4¢/sh Sway Trustees LTD
NO				NET Temper of the Times Investor Services Int
NO				NET The Moneypaper Inc
SSC				4¢/sh Tremont - Broad Market Fund LDC
SSC				4¢/sh Yeshaya Horowitz Assoc

Compensation: - All SSC Executions are executed as Riskless Principal/Agency through our Institutional Department execution platform for 4¢ per share  
 10/13  
 commission equivalent on equities and \$1.00 per option contract.  
 - All other executions are executed as principal through our Market Making Department execution platform on a net basis.  
 - There have been no changes to this rate.

## Securities Executed as Part of Split Strike Conversion

2003 SYMBOL EQUITY	2003 SYMBOL S&P 100 INDEX OPTION	2002 SYMBOL EQUITY	2002 SYMBOL S&P 100 INDEX OPTION	2001 SYMBOL EQUITY	2001 SYMBOL S&P 100 INDEX OPTION
AOL	OXBAN	AOL	OEYAA	AOL	OEZAB
ALL	OXBAO	T x	OEYAT	T x	OEYAS
MO	OXBBM	AXP	OEBBQ	AOL x	OEZAT
AXP	OXBCB	AIG	OXBCL	AXP	OEZBB
AIG	OXBCD	AMGN	OEBCM	AIG	OEYCJ
AMGN	OXBCF	BUD	OEBCN	AMGN	OEYCT
BUD	OXBEN	BAC	OEBCO	BAC	OEYDD
BAC	OXBEO	ONE	OEBCOZ	BA	OEYDT
ONE	OXBEP	BA	OEBDL	BMY	OEYFJ
BA	OXBFP	BMY	OEBCOZ	CSCO	OEYGF
BMY	OXBFQ	CSCO	OEBCOZ	C	OEYGG
CSCO	OEBGA	C	OEBEH	KO	OEYIA
C	OEBGT	KO	OEBEI	DIS	OEYIS
CCU	OEBHB	CL	OEBEI	DD	OEYIT
KO	OEBIC	DIS	OEBEI	EMC	OEYJA
CL	OEBID	DD	OEBEI	XOM	OEYJE
DIS	OEBJD	XOM	OEBEI	F	OEYKL
DOW	OEYJE	GE	OEYJE	GE	OEYLT
DD	OEYKE	G	OEYKE	HPQ	OEYMQ
XOM	OEYLF	GS	OEYLF	HD	OEYMR
GE	OXBML	HCA	OXBJD	INTC	OEZNT
G	OXBMM	HPQ	OXBJH	IBM	OEYOG
GS	OXBNK	HD	OEYJJ	JPM	OEYOR
HPQ	OXBOB	INTC	OEYKK	JNJ	OEYPR
HD	OXBOD	IBM	OEYMR	LU	OEYRH
INTC	OXBOT	JPM	OEYMS	MCD	OEYSE
IBM	OXBQL	JNJ	OEYNO	MRK	OEYSF
JPM	OXBQM	MDT	OEYBJ	MER	OXBYN
JNJ	OXBQN	MRK	OEYBK	MSFT	OEYUR
MCD	OXBRN	MER	OEYBL	MMM x	OEYUS
MDT	OXBRO	MSFT	OEYBM	MWD	OEYVD
MRK	OXBSQ	MMM x	OEYBP	NT	OEYVT
MER	OXBSR	MON	OEYBPQ	ORCL	OEYVJ
MSFT	OXBSS	MWD	OEYBQD	PEP	OEYVW
MWD	OEYBT	ORCL	OEYBQE	PFE	OEYXR
ORCL	OEYBUA	PEP	OEYBQF	PHA	
PEP	OEYBUB	PFE	OEYBRJ	MO x	
PFE	OEYBVB	PHA	OXBSR	PG	
PHA	OEYBVC	MO x	OXBTC	SBC	
MO x	OEYBWD	PG	OXBTD	TXN	
PG	OEYBXD	SBC	OXBTJ	TYC	
SBC		TXN	OEYWT	USB	
SLB		MMM	OXBYB	VZ	
TXN		TYC	OXBYF	VIA.B	
MMM		USB	OXBYH	WMT	
TWX		UTX	OXBYI	WFC	
TYC		VZ			
USB		VIA.B			
UTX		WMT			
VZ		WFC			
VIA.B					
WMT					
WFC					

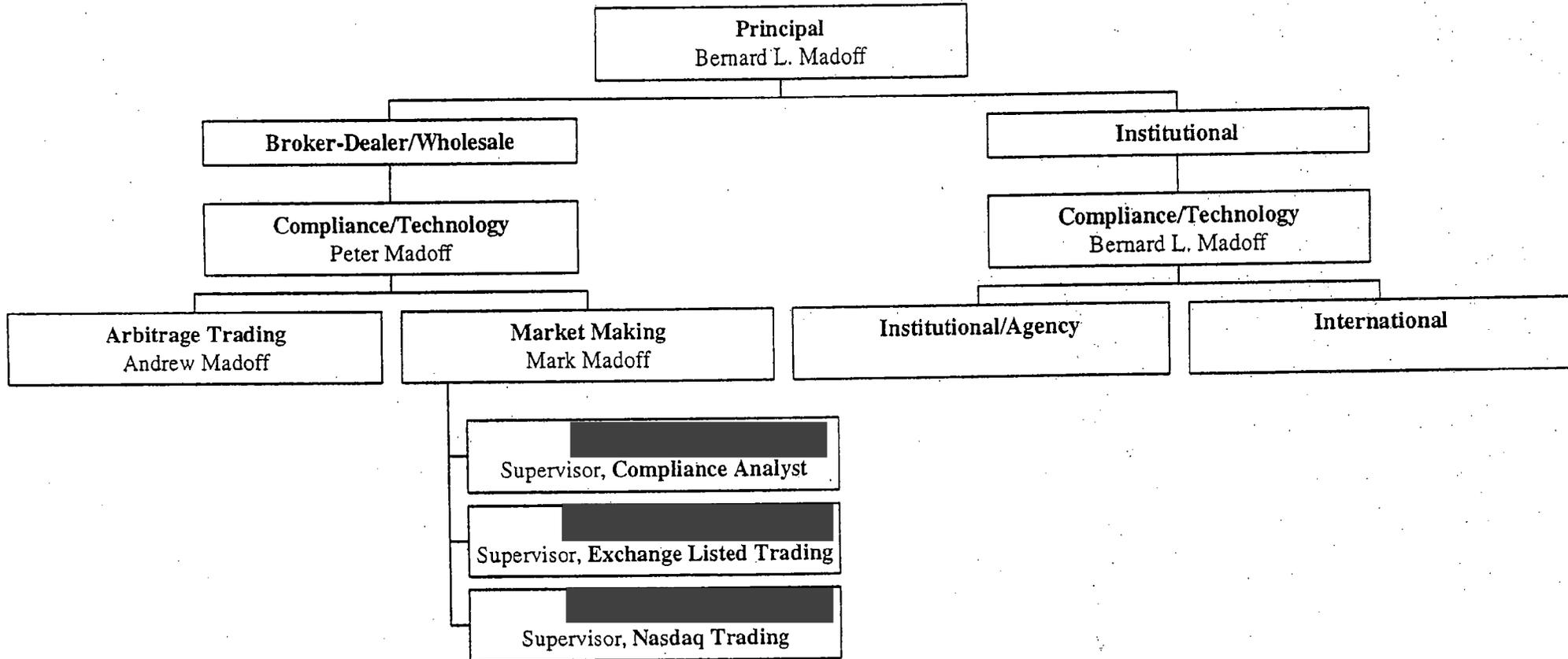


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# Organization Chart



MADOFF\_EXHIBITS-03792

**FUND OF HEDGE FUNDS  
INSPECTION FOCUS AREAS AND GUIDE  
JULY 10, 2003**

**INTRODUCTION**

Funds of hedge funds ("FHF") that are registered under the Investment Company Act (and may also have registered their shares/units under the 1933 Act) have a typical organizational structure. The top level fund, the FHF, invests all or substantially all of its assets in partnership units of or shares issued by two or more hedge funds that are offered privately. The shares of the FHF may or may not be sold to investors in a public offering. If a FHF is not making a public offering, its shares must be sold privately to investors that qualify for the terms of the private offering. FHF are closed-end funds that usually do not have an active secondary trading market. The minimum investment needed to purchase an interest in a FHF is typically at least \$25,000.

**ISSUES OF SPECIAL INTEREST**

Registered FHF must comply with all provisions of the ICA as well as related rules and policies to which they are subject. It is often more difficult for FHF to comply with certain regulatory provisions that apply to RICs than it is for the average closed or open-end RIC. The areas in which these compliance difficulties arise as well as the areas that are of particular interest during inspections include the following:

- Due diligence regarding potential investments to ensure suitability and consistency with FHF disclosures;
- Appropriate application of an asset allocation strategy to evaluate the ongoing mix of investments held by the FHF for consistency with disclosures;
- Risk management to ensure that investment risks assumed through ownership of underlying hedge funds are consistent with risk disclosures in FHF's prospectuses;
- Ability to conduct continuing oversight and due diligence of hedge funds in FHF's portfolios;
- Identification and monitoring of conflicts of interest between a manager ("RIA") and its affiliates and the FHF's;
- Timely flows of information to permit accurate periodic pricing or valuation of FHF's investments in underlying hedge funds;
- Adequacy of fair value procedures at the FHF level to allow calculation of FHF net asset values at times when underlying hedge funds do not value their holdings;