

2/4/04 Conference Call w/ Madoff

(1) April 2003

conditions required
b/c market ~~and~~ ~~for~~ model closed
present effect: no trading activity

→ Strategy does not operate all the time

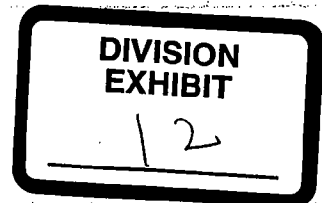
(2) when a

the same as a comm. → when dealer
trades, charge a comm. (equivalent)
computer for execution on dealer trades
- no comm. charged on a principal trade

(3) all identified

(4) (6) back to model that operates the best
→ the broker ~~has~~ determines when the
strategy gets executed

→ 15 day BB systems over the years
Madoff has built
→ past trading systems



MC Variable \rightarrow % of correlation to the S&P 100
 \rightarrow determined by the client's risk parameters

95% correlation, best to be

using smallest list of securities \rightarrow
to an index fund doing S&P 100
100% correlation

Strategy using S&P 100 \rightarrow

if you want to achieve 95%
correl. must determine which
securities can be used to achieve
the strategy

\rightarrow client tell you the % of correlation
the client wants

specific conditions \rightarrow all sec. must be
listed in S&P 100 index
must be grate

\rightarrow will describe which goods you have to buy
 \rightarrow read sec. if eligible best to be
dollar weighted in port

take a security & run it through a
back test / time test model - a historical
database

Correlation is continually monitored
→ if derivative is greater than 5%
then the model triggers a sell order

no discretion as the part of madoff
everything is determined by the
black box

Madoff

questions:

→ What is provided to hedge fund or is:
Commission = pd?

→ No email communications?

→ how does he determine the time to
execute orders?

3/21/04 Conference call w/ Bernard Madoff

→ Comm. w/ client → fund allocate certain amt
of \$ to trade

→ goes into program
of amt

→ (Investment manager) advisor

→ Authorized agent of client calls Madoff re:
amt of \$ to invest

→ acct statement → sent to the fund et seq

→ only communication b/c

based on trading directive, Madoff
fills the criteria + enters into the
box

(2.)

no profit / loss \rightarrow ~~only the~~ let acct
calculated by Madoff

Settlement date on acct statements
 \rightarrow prices \rightarrow average price stock trades
 \rightarrow average price at the end of the day

~~AP~~ div

~~Attacker~~

\rightarrow Commissions \rightarrow ap - \$50
comm \rightarrow 50.04 \rightarrow billed at \$50.04

When he's in & out (date)
to RP map