

Re: Madoff Update

6/7/2005 1:47:35 PM

From: Nee, John
To: Ostrow, William D. Personal Privacy
Cc: Lamore, Peter Personal Privacy

Thanks for the update. Be sure to keep your eyes on the prize. The branch vs. affiliate issue is a secondary (terciary ?) issue at best. I also don't think we'd get far with the IA issue as broker-dealers can, as you know, act in an advisory capacity (eg. Discretionary accounts, advice. Etc.)

Have you given him the written requests re: the model logic and IT feeds yet?

John

From: Ostrow, William D.
Sent: Tuesday, June 07, 2005 12:26 PM
To: Nee, John
Cc: Lamore, Peter; Ostrow, William D.
Subject: Madoff Update

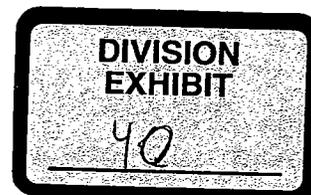
John,

We have been reviewing all of the basket trades conducted by the fifteen or so entities using Bernie's proprietary model. For all of 2004, Madoff executed close to 2 billion shares of stock, which represents a "commission equivalent" of approximately \$82 million (.04 cents a share). It appears that without this "commission equivalent" business derived from the hedge funds, we estimate the firm would lose \$10 to \$20 million per year. We intend to obtain an expense breakdown for October 2004 - December 2004 to get a better understanding of the "commission equivalent" business.

There does not appear to be anything unusual with the basket trading strategies employed. The trading appears to be in line with the trading directive. We are researching whether or not Bernie should be registered as an investment manager / advisor due to his entire discretion in trading these accounts. Another issue we have is with the London affiliated office of Madoff. Since the London Affiliate of Madoff serves as the settlement agent for the US office through Barclays, we will be researching whether the London office should be deemed a branch vs. an affiliate.

We still have a few outstanding requests with the firm. We'll keep you updated.

William Ostrow
Staff Accountant
U.S. Securities and Exchange Commission



Northeast Regional Office

3 World Financial Center - Room 4300

New York, New York 10281-1022

Personal Privacy

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