

RE: Meeting with Informant Today

10/26/2005 9:11:20 AM

From: Ricciardi, Walter
To: Dugan, John T. (BDO) [Personal Privacy]; Bergers, David [Personal Privacy]
Cc: Garrity, Michael [Personal Privacy]; Caverly, Andrew D. [Personal Privacy]

How about I forward the attached to Mark and ask him to have someone get in touch with you?

From: Dugan, John T. (BDO)
Sent: Wednesday, October 26, 2005 9:07 AM
To: Ricciardi, Walter; Bergers, David
Cc: Garrity, Michael; Caverly, Andrew D.
Subject: RE: Meeting with Informant Today

How do you want to handle the referral? Should Walter or David talk directly to Mark and perhaps forward the below summary to him, or would you like me to talk to someone else at NERO?

JTD

From: Ricciardi, Walter
Sent: Tuesday, October 25, 2005 4:33 PM
To: Dugan, John T. (BDO); Bergers, David
Cc: Garrity, Michael; Caverly, Andrew D.
Subject: RE: Meeting with Informant Today

Fine with me. Let's try to make sure that NERO recognizes the potential urgency of the situation. By the way, auditors are required to be independent. You cannot have an independent audit performed by a relative. Thanks.

From: Dugan, John T. (BDO)
Sent: Tuesday, October 25, 2005 4:26 PM
To: Ricciardi, Walter; Bergers, David
Cc: Garrity, Michael; Caverly, Andrew D.
Subject: Meeting with Informant Today

We met this morning with an informant who passed on information about Bernard L. Madoff and the registered broker-dealer entity that he operates, New York-based Madoff Investment Securities, LLC.

In a nutshell, the informant believes that although Madoff holds himself out as a B-D, he actually manages money for hedge funds. Various hedge funds apparently raise money from investors and hand it over to Madoff to manage, and they don't disclose this to the investors in writing (because Madoff does not want them to reveal that he is managing the money). The hedge funds apparently want Madoff to manage the money because he purportedly has some system that is extremely successful. In fact, the informant believes that Madoff cannot possibly be achieving the returns that the hedge funds claim he is getting. The informant believes that Madoff may be running one giant Ponzi scheme, and there are signs that it may be close to crashing down on him. According to the informant, if that happens, it would have widespread ramifications, as a lot of people have placed a lot of money with Madoff (including some Swiss banks and a lot of Europeans). A few of the hedge funds that have apparently placed money with Madoff are Fairfield Sentry, Ltd; Access International Advisors; and Broyhill All-Weather Fund, L.P.

The informant apparently believes there are many other people on Wall Street and elsewhere also believe that Madoff is operating a fraud (almost as though it is an "open secret" among a lot of Wall Street firms). The informant passed along a lot of other information about this situation. There is too much to include it all here, but I'll just mention a couple of other things. As an alternative to the Ponzi scheme theory, the informant believes that Madoff may actually be achieving the claimed returns, but is doing so by front-running. Also, Madoff apparently will not allow any hedge fund to have an independent auditor look at his books. He will only

allow his own personal auditor to do so, and that auditor happens to be his brother-in-law.

There are no open investigations of Madoff or the hedge fund entities I mentioned above that may have placed their money with him. NERO apparently recently (in September 2005) conducted an exam of Madoff's broker-dealer entity, and the exam report that Andy obtained touches on some of the same issues that the informant was discussing.

Because Madoff is in New York and NERO may already be interested in this as a result of its exam, I recommend that we refer this to NERO for investigation.

Thanks, John.