

RE: New Case: Madoff Investment Securities

11/3/2005 5:07:40 PM

From: Bachenheimer, Doria G.**To:** Cheung, Meaghan S. [CheungM@SEC.GOV]; Suh, Simona Personal Privacy

yes

From: Cheung, Meaghan S.**Sent:** Thursday, November 03, 2005 5:07 PM**To:** Bachenheimer, Doria G.; Kanevski Suh, Simona**Subject:** RE: New Case: Madoff Investment Securities

Sure. Now?

From: Bachenheimer, Doria G.**Sent:** Thursday, November 03, 2005 5:05 PM**To:** Cheung, Meaghan S.; Suh, Simona**Subject:** New Case: Madoff Investment Securities

Here's a new case for Simona. Do you want to come by and we'll call John Dugan to see what he can tell us?

From: Calamari, Andrew M.**Sent:** Thursday, November 03, 2005 4:55 PM**To:** Bachenheimer, Doria G.**Subject:** FW: Madoff Investment Securities

From: Dugan, John T. (BDO)**Sent:** Thursday, November 03, 2005 2:54 PM**To:** Glotzer, Helene T.; Rosenfeld, David; Calamari, Andrew M.**Subject:** FW: Madoff Investment Securities

I don't know if Mark forwarded this to any of you, or if NERO is interested in investigating this, but the informant who brought this to us wants to come in and talk about it some more. If NERO plans to investigate this, I would prefer to just hook the informant up with someone in your office. Could you let me know either way?

Thanks, John Dugan, Assistant District Administrator, BDO

From: Ricciardi, Walter**Sent:** Wednesday, October 26, 2005 9:16 AM**To:** Schonfeld, Mark**Cc:** Bergers, David; Dugan, John T. (BDO); Caverly, Andrew D.; Garrity, Michael**Subject:** Madoff Investment Securities

Mark, As outlined below, we met yesterday with an informant that raised some significant concerns about Bernard Madoff and his broker-dealer, Madoff Investment Securities. Since Madoff is in New York, and NERO recently conducted an examination, we thought you might want to follow up on this. Additional details are available from John Dugan. 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.