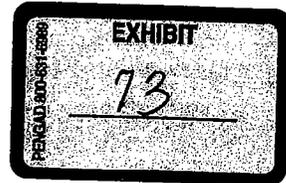


SEC DIVISION OF ENFORCEMENT
Case Closing Recommendation



Run on 11/21/2007

Case No.: NY-07563

Case Name: Certain Hedge Fund Trading Pra

Case Closing Recommendation Narrative:

Investigation Closing Narrative

NY-7563/Certain Hedge Fund Trading Practices

I. Reason Opened:

The staff opened this case on January 4, 2006, to investigate (1) whether Bernard L. Madoff Investment Securities LLC ("BLM"), a registered broker-dealer, provided investment advisory services to large hedge funds in violation of the registration requirements of the Investment Advisers Act of 1940, and (2) whether BLM engaged in any fraudulent activities in connection with these services. The investigation was prompted, first, by a letter from an "Independent fraud investigator," a person who had previously provided helpful information to the enforcement staff at BDO, alleging that the returns reported by BLM's hedge fund clients were the result of fraud perpetrated by BLM. Second, in the course of a preliminary inquiry into these allegations, the staff learned that, during a recent examination of BLM by NERO's broker-dealer examination staff, Bernard Madoff, the sole owner of BLM, did not fully disclose to the examination staff either the nature of the trading conducted in the hedge fund accounts or the number of such accounts at BLM.

II. Work Performed:

BLM and two of its largest hedge fund clients voluntarily produced documents to the staff. The staff took the voluntary testimony of Bernard Madoff, his assistant, and a principal of BLM's largest hedge fund client, Fairfield Greenwich Group ("FGG"). The staff also interviewed a FGG employee.

III. Conclusions Reached:

The staff found no evidence of fraud. The staff did find, however, that BLM acted as an investment adviser to certain hedge funds, institutions and high net worth individuals in violation of the registration requirements of the Advisers Act. The staff also found that FGG's disclosures to its investors did not adequately describe BLM's advisory role and described BLM as merely an executing broker to FGG's accounts. As a result of discussions with the staff, BLM registered with the Commission as an investment adviser, and FGG revised its disclosures to investors to reflect BLM's advisory role.

IV. Reasons for Closing:

We recommend closing this investigation because both BLM and FGG voluntarily remedied the uncovered violations, and because those violations were not so serious as to warrant an enforcement action.

V. Compliance Requirements:

All files have been prepared for closing in accordance with the procedures set forth in the McLucas and Butler memorandum dated August 20th, 1993, concerning the disposition of records upon the closing of cases. No access requests or protective orders governing the case records are outstanding. According to the Commission's FOIA office, as of January 10, 2007, the most recent denial of a FOIA request (request number 07-01646-FOIA) in this matter was on January 3, 2007. The request remains a FOIA concern as the requester has six years to appeal the denial. Accordingly, any materials the staff is not otherwise required to retain will be retained upon closing as Category F records. There are no Category E records. Termination letters have been sent to Bernard L. Madoff Investment Securities LLC, Bernard L. Madoff, and Fairfield Greenwich Group. The staff has no objection to the eventual destruction of the files and has no knowledge of any impediment to such a disposition.

VI. Names and Titles of Staff:

This closing recommendation was prepared by Simona Suh, Staff Attorney, and reviewed and approved by Dorla Bachenhelmer, Assistant Regional Director, and Meaghan Cheung, Branch Chief.

Representations

A. FOIA

After consultation with FOIA/PA Branch, it was determined that the FOIA status of these case files is as follows (Check one):

- No FOIA concerns exist as of _____.
- FOIA request filed on _____ is pending without decision. Category F Material will be retired with balance of file.
- FOIA request was denied on _____. Category F Material will be marked to be discarded six years after decision date.
- FOIA determination was appealed and decided on _____. Category F Material will be marked to be discarded six years after decision date.

B. Category E Records

- The files contain no Category E Records.
- A copy of the index for all designated Category E (Miscellaneous) Records is attached.

C. Termination Letters

- No termination letters are required.
- Termination letters will be sent to the parties listed in the case narrative.

SEC DIVISION OF ENFORCEMENT Case Opening Report

Case No.: NY-07563

Case Name: Certain Hedge Fund Trading Pr

Run on 1/24/2006

Date Opened: 1/4/2006

Case Opening Narrative:

The staff received a complaint alleging that Bernard L. Madoff Investment Securities LLC, a registered broker-dealer in New York ("BLM"), operates an undisclosed multi-billion dollar investment advisory business, and that BLM operates this business as a Ponzi scheme. The complaint did not contain specific facts about the alleged Ponzi scheme, and the complainant was neither a BLM insider nor an aggrieved investor. Nevertheless, because of the substantial amounts at issue, the staff, in the abundance of caution, requested voluntary production of certain documents from BLM and two of its hedge fund customers, Fairfield Sentry Limited and Greenwich Sentry, L.P., affiliates of the New York-based Fairfield Greenwich Group ("FGG") (collectively, the "Sentry Funds"). The staff also conducted a voluntary interview of an FGG officer. The staff found, first, that neither BLM nor the Sentry Funds disclose to investors that the investment decisions for the Sentry Funds are made by BLM rather than by FGG, and that, in substance, BLM acts as an undisclosed investment adviser to the Sentry Funds. Second, the staff found that, during an SEC examination of BLM that was conducted earlier this year, BLM – and more specifically, its principal Bernard L. Madoff, – misled the examination staff about the nature of the strategy implemented in the Sentry Funds' and certain other hedge fund customers' accounts, and also withheld from the examination staff information about certain of these customers' accounts at BLM. Third, the evidence obtained so far suggests that BLM also acts as an undisclosed investment adviser to several additional hedge funds. The staff is now seeking additional evidence, in the form of documents and witness testimony from BLM and its hedge fund customers, on the issues of BLM's role in those hedge funds' investment activities and the adequacy of related disclosures. Additionally, the staff is trying to ascertain whether the complainant's allegation that BLM is operating a Ponzi scheme has any factual basis.

Signatures Personal Privacy

Attorney

Personal Privacy

Personal Privacy

Asst Dir/Asst Reg Adm/Dist Adm

1/24/06

Date

1/24/06

Date

1/24/06

Date

Submit this form to the Office of Chief Counsel, Division of Enforcement.