



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF COMPLIANCE
INSPECTIONS AND
EXAMINATIONS

February 6, 1998

Mr. Bernard L. Madoff
Bernard L. Madoff Investment Securities
885 Third Avenue
New York, New York 10022

Dear Mr. Madoff:

The Staff completed an examination of your firm's order handling practices. The Commission, in its release adopting the order handling rules, emphasized the importance of a broker-dealer's duty of best execution.¹ The Commission made clear that in evaluating price improvement opportunities, a broker-dealer must consider, among other things, both the amount of price improvement and the extent to which orders are executed at prices inferior to the national best bid or offer at order entry time ("price disimprovement").² Accordingly, to ensure that broker-dealers that send to Bernard L. Madoff Investment Securities retail customer orders for execution satisfy their legal obligations, order-execution firms such as Bernard L. Madoff Investment Securities must make available to its broker-dealer customers price improvement information and price disimprovement information. The Staff found six orders (less than 0.5% of orders reviewed) that were executed by your firm at prices inferior to the national best bid or offer at order entry time.

In addition, the Staff found that your firm executed 110 market orders (2.0% of the orders reviewed) at prices inferior to the national best bid or offer at order execution time. This usually occurred at your firm because an order was manually executed. Manually executed orders are priced by your firm at the national best bid or offer at order entry, not execution time. Since order-routing firms must regularly and rigorously examine execution quality likely to be obtained from the different markets or market makers trading a security, order-executing firms such as yours should explicitly inform broker-dealer customers that orders are executed at prices that reference the national best bid or offer at receipt time, notwithstanding the fact that the NBBO may be superior at order execution time. Failure to

¹ See Securities Exchange Act Release No. 37619 (August 29, 1996), 61 FR 48290 (September 12, 1996) (File No. S7-30-95) ("Order Handling Rules Release").

² Order Handling Rules Release at 48323.

Bernard L. Madoff Investment Securities

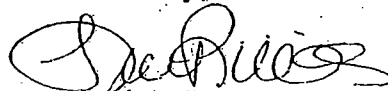
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execute orders at the national best bid or offer at execution time raises best execution concerns for order routing firms and, in addition, could inflate your firms's price improvement statistics. The Staff recommends that Bernard L. Madoff Investment Securities inform its customers of any relevant execution practices that could affect price improvement statistics or execution quality.

If you have any questions concerning the matters contained in this letter, please call me at Personal Privacy or Mary Ann Gadziala, Associate Director, at Personal Privacy

Sincerely,



Lori A. Richards

Director