



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

OFFICE OF COMPLIANCE  
INSPECTIONS AND  
EXAMINATIONS

December 20, 2000

Via Facsimile and Mail

Ms. Shana Madoff Skoller  
Director of Compliance  
Bernard L. Madoff Investment Securities  
885 Third Avenue  
New York, NY 10022

Dear Ms. Skoller:

On October 29, 1999, the Staff requested information from Bernard L. Madoff Investment Securities ("MADF") regarding its compliance with SEC Rule 11Ac1-4 (the "Display Rule"). As part of this request, the staff asked MADF to provide a printout of all customer limit orders received or held by the firm on October 11-12, 1999 in ten actively traded listed securities.<sup>1</sup> In a follow-up request, the Staff requested information regarding customer limit orders received or held by MADF on October 25, 1999 in ten over-the-counter securities.<sup>2</sup>

The staff randomly selected 643 eligible customer limit orders to determine whether MADF handled the orders in compliance with the Display Rule. The Staff found that 119 of the orders, or approximately 18%, failed to be displayed for a duration of 30 seconds or longer when the orders were required to be displayed by the Display Rule. In some instances, MADF failed to display the full size of eligible customer limit orders, and in other instances, MADF failed to display both the price and size of eligible customer limit orders.

The violations described above are brought to your attention for immediate corrective action, without regard to any other action the Commission may take or require to be taken as a result of this examination. Notwithstanding any actions taken by the Commission with regard to

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<sup>1</sup> The Staff requested customer limit orders in the following ten listed securities: America Online Corp. ("AOL"), Pfizer Inc. ("PFE"), Honeywell, Inc. ("HON"), Micron Technology Inc. ("MU"), Wachovia Corp. ("WB"), AT&T Corp. ("T"), CSX Corp. ("CSX"), LSI Logic Corp. ("LSI"), Exxon Corp. ("XON"), and Time Warner Inc. ("TWX").

<sup>2</sup> The Staff requested customer limit orders in the following ten over-the-counter securities: Cisco Systems Inc. ("CSCO"), CIENA Corporation ("CIEN"), Qualcomm, Inc. ("QCOM"), Nextel Communications, Inc. ("NXTL"), Adaptec, Inc. ("ADPT"), Biomet, Inc. ("BMET"), Amgen Inc. ("AMGN"), C-Cube Microsystems Inc. ("CUBE"), Glenayre Technologies, Inc. ("GEMS"), and Qwest Communications International Inc. ("QWST").

the above violations, please promptly advise the Staff in writing as to the specific procedures which MADF has, or will, put into effect to prevent further violations of the law. In addition, please respond specifically to the following questions:

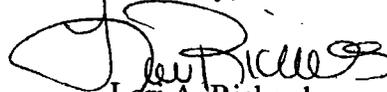
1. Describe how MADF's current procedures and/or internal order handling system ensure compliance with the Display Rule with respect to the display of the proper size of customer limit orders.
2. Describe how MADF's current procedures and/or internal order handling system ensure that MADF displays the proper price and size of eligible customer limit orders when odd lot orders or stop limit orders are the best priced orders on its book?
3. Please provide a list of the scenarios that would cause a momentary quote-through of an eligible customer limit order. Describe how MADF's current procedures and/or internal order handling system ensure compliance with the Display Rule with respect to the display of eligible customer limit orders after a momentary quote-through. Please state the current average time it takes MADF to correct a momentary quote-through.
4. Describe any changes to MADF's procedures and/or internal order handling system relating to compliance with the Display Rule since November 1999 and the reasons for the changes.

The Staff requests that you submit your written response within 30 days of the date of this letter. If you have any questions, please contact me at [Personal Privacy] or Tina Barry at [Personal Privacy]

Personal Privacy

Personal Privacy

Sincerely,



Lori A. Richards  
Director