

Online Resource Guide for the Classroom and Beyond

Contents

- Victim's Stories (13 links)
- Video Clips (21 links)
- Documentaries (2 links)
- Written Testimony (5 links, 2 PDFs)
- SEC Depositions of the Markopolos Investigative Team (4 links)
- SEC Interviews with Industry Insiders (9 links)
- Madoff Case Filings (1 PDF)
- Madoff Deposition and Deceptions (1 link)
- Accounting Statements (2 links)
- Madoff Feeder Funds (8 PDFs, 1 link)

Victim's Stories

Link: <http://www.youtube.com/watch?v=9UJjEoJToyc&feature=fvw>

Description: December 18, 2008: CBS News Eye to Eye with Katie Couric: Madoff Scam 58 year old Madoff Victim Larry Lief lost his entire \$8 million in retirement savings and discusses his anger and his lost faith in government and the nation's financial system.
(3 minutes, 23 seconds)

Link: <http://www.youtube.com/watch?v=RhbR1uIKNy4&NR=1>

Description: December 24, 2008: CBS News The Early Show: Victim Robert Chew discusses the riches to rags emotional and financial transition that he and other victims are experiencing. (2 minutes, 15 seconds)

Link: <http://www.youtube.com/watch?v=HcuA86gblNk>

Description: January 12, 2009: CNN Money interviews a very articulate victim who lost her retirement nest egg. What makes this video unique is that the victim is a journalist and puts the scandal in

historical perspective, terming it, “emblematic of the decade.” (4 minutes, 19 seconds)

Link: <http://www.youtube.com/watch?v=JCmVGg6baYk>

Description: February 5, 2009: Bloomberg News story on the wealthy celebrities that are now Madoff victims including sports stars, movie stars, TV personalities, singers, and famous real estate developers. (2 minutes, 1 second)

Link: <http://www.youtube.com/watch?v=UsuCfz47d4U>

Description: February 19, 2009: Associated Press interviews a 90 year old retiree who was forced to go back to work as a super market greeter in order to pay his wife’s medical bills after losing his \$700,000 nest egg. (2 minutes, 5 seconds)

Link: <http://www.youtube.com/watch?v=LBVsdgcJprE>

Description: March 11, 2009: Associated Press interviews an 80 year old retired Broadway producer and his wife who lost their life savings. (1 minute, 51 seconds)

Link: <http://www.youtube.com/watch?v=uqP5OEoq99Q>

Description: March 12, 2009: CBS News Katie Couric interviews 9 victims most of whom were not ultra-rich but who, nonetheless, lost money to Bernard Madoff. Interviewed are a CPA, a Certified Financial Planner, retired school teachers, computer programmer, medical billing representative, book author, and the mayor of Fairfield, Connecticut where the town invested pension assets in the scheme. Interestingly, these interviews took place after Madoff made a court appearance where he pleaded guilty and two of the victims were in the courtroom and comment on the proceedings. (6 minutes, 30 seconds)

Link:

http://www.youtube.com/watch?v=sZGGqyz9RDQ&feature=PlayList&p=DF2A2049BD9C39A1&playnext=1&playnext_from=PL&index=5

Description: March 12, 2009: This is the full interview with CBS News Katie Couric as she interviews 9 victims (see above). (32 minutes, 17 seconds)

Link: http://www.youtube.com/watch?v=LVIDfqs_3xw

Description: March 12, 2009: Associated Press interviews two Madoff victims. The first one speaks about the legal and tax issues that the victims are now facing as they deal with possible clawback lawsuits, recovering back taxes paid on phantom income, carry loss forwards and applying for food stamps. The second victim addresses the losses by charities and foundations.

(2 minutes, 28 seconds)

Link: <http://www.youtube.com/watch?v=upSXE17O1tY>

Description: March 17, 2009: CBS News interview which delves into IRS rulings that treat Madoff victims compassionately by allowing them to recover taxes paid on phantom income and how victims are also entitled to take theft loss deductions. This story follows one Long Island family which lost \$700,000 in savings.

(2 minutes, 15 seconds)

Link: <http://www.youtube.com/watch?v=4ckze-8VxQM&NR=1>

Description: June 28, 2009: AFP interview with a New York documentary film maker who invested in a fund for his special needs son. A second interview is with a Manhattan grandfather who lost his grandchildren's college education funds. This clip ends with mention of a malpractice law suit being filed against regulators.

(2 minutes)

Link: <http://www.youtube.com/watch?v=S3SpOHZ5qiE>

Description: June 29, 2009: CBS The Early Show on the day of Bernard Madoff's sentencing hearing. An interview with three victims and their thoughts on what will happen in the court room and how the scandal has affected their lives.

(3 minutes, 41 seconds)

Link: <http://www.youtube.com/watch?v=HWA25iiOfmU>

Description: July 30, 2009: Associated Press / A Madoff victims' lawyer flies down to North Carolina to conduct a 4.5 hour jailhouse interview with Bernard Madoff. The attorney provides a riveting inside look at what daily prison life is like for Madoff.

(3 minutes)

Video Clips

Link: http://www.youtube.com/watch?v=uw_Tgu0txS0

Description: February 4, 2009: Opening Remarks by Harry Markopolos, CFA, CFE before the US House Capital Markets Sub-Committee summarizing his team's investigation and his contacts with the SEC over an 8 ½ year period

(12 minutes, 25 seconds)

Link:

<http://financialserv.edgeboss.net/wmedia/financialserv/hearing020409.wvx>

Description: February 4, 2009: Full Congressional Testimony of Harry Markopolos, CFA, CFE before the US House Capital Markets Sub-Committee that provides victims their first look at what happened and why Madoff was allowed to continue for so long.

(the first 150 minutes)

Link:

<http://financialserv.edgeboss.net/wmedia/financialserv/hearing020409.wvx>

Description: February 4, 2009: SEC Senior Staff's Testimony before the US House Capital Markets Sub-Committee. Blistering testimony where five SEC Senior Staff refuse to answer questions and Congress heatedly berates them for their lack of candor, threatening them at various points with subpoenas and elimination as an agency.

(the last 131 minutes)

Link: <http://www.youtube.com/watch?v=nOFOKjUesDg>

Description: February 4, 2009: Congressional Testimony that good ethics trumps the law every time. Laws are outdated as soon as they are passed, hence we need to adopt good ethics, full transparency, full disclosure and fair dealing for all as the gold standard for securities law enforcement. Rep. Michael Capuano (D-MA) questions Harry Markopolos.

(3 minutes, 20 seconds)

Link:

<http://www.youtube.com/watch?v=xFDoLOxh6pk&feature=related>

Description: February 4, 2009: Congressional Testimony addressing Constitutional Law issues between the Executive Branch and Congress. Committee Chairman Paul Kanjorski (D-PA) berates the SEC Senior Staff, threatening them with subpoenas and elimination of their agency if they refuse to testify and calling their opening oral testimony “oatmeal.” (6 minutes, 19 seconds)

Link: http://www.youtube.com/watch?v=FOKSkaQoF_I&NR=1

Description: February 4, 2009: Congressional Testimony with Rep. Gary Ackerman (D-NY) angrily berating the SEC Senior Staff calling them blind, deaf and dumb for having totally failed in their mission. He also point out that they are purposely evading the Committee’s questions. (5 minutes, 26 seconds)

Link: <http://www.youtube.com/watch?v=tbLbyOhU6Nw&NR=1>

Description: February 4, 2009: Congressional Testimony with Rep. Carolyn Maloney (D-NY) asking why the SEC exam teams never took the simple audit step of verifying Madoff’s trades with trade counterparties or did the financial math that would have shed light on Madoff’s unbelievably high Sharpe Ratios. Rep. Maloney also threatens to subpoena the SEC’s Director of Enforcement, Linda Thomsen, if she won’t answer questions. Five days later the SEC’s Director of Enforcement “resigns” to pursue other growth opportunities outside of government. (5 minutes, 45 seconds)

Link:

http://www.youtube.com/watch?v=w5a4qOOq_tc&feature=related

Description: February 4, 2009: Congressional Testimony with Rep. Brad Sherman (D-CA) who is a CPA by trade and asked several questions regarding auditor certification standards and proper audit procedures that should have raised red flags with the SEC and investors. A workable whistleblower program is also discussed toward the end of the clip. The audio doesn’t match the video.

Helpful Hints: This is a good clip for accounting and finance students. (6 minutes, 1 second)

Link: <http://www.youtube.com/watch?v=lQ9l02p-Hvw&feature=channel>

Description: February 4, 2009: Congressional Testimony with Rep. Ed Perlmutter (D-CO) questioning Harry Markopolos. The Feeder Funds were over-compensated via fee-sharing with Madoff such that they were incentivized not to ask questions or conduct proper due diligence. Madoff bought their silence.

(5 minutes, 5 seconds)

Link:

<http://www.youtube.com/watch?v=rHFZXyILRoY&feature=related>

Description: February 4, 2009: Congressional Testimony that European Feeder Funds were into Madoff in a big way. Ranking Member Scott Garrett (R-NY) questions Harry Markopolos.

(57 seconds)

Link:

<http://www.youtube.com/watch?v=M4cDOX7ooW4&feature=related>

Description: February 4, 2009: Congressional Testimony detailing why the SEC is dysfunctional, over-lawyered, and has an inept staff that needs to be replaced. Rep. Ed Royce (R-CA) questions Harry Markopolos.

(5 minutes, 8 seconds)

Link: <http://www.youtube.com/watch?v=jZtymPorheg>

Description: February 4, 2009: Congressional Testimony that organized crime was victimized by Madoff via their investments through off-shore feeder funds. Rep. Gary Ackerman (D-NY) questions Harry Markopolos.

(3 minutes, 18 seconds)

Link: <http://www.youtube.com/watch?v=Wm119TYH3QI&NR=1>

Description: February 4, 2009: Congressional Testimony that the Madoff Feeder Funds did not do “Due Diligence” and that individual investors would have not been able to figure this out. Rep. Gary Ackerman questions Harry Markopolos.

(2 minutes, 34 seconds).

Link:

<http://www.youtube.com/watch?v=ElsL9u6tRNU&feature=related>

Description: February 4, 2009: Congressional Testimony – a heated exchange between Rep. Gary Ackerman (D-NY) and SEC Acting General Counsel Andy Vollmer where the SEC claims executive privilege without permission of either the President or the Attorney General. Mr. Vollmer was replaced as Acting General Counsel two days later after Rep. Ackerman calls him the enemy.

(6 minutes, 34 seconds)

Link: <http://www.youtube.com/watch?v=fiXHkA950GI&NR=1>

Description: January 5, 2009: Congressional Testimony by Rep. Ron Paul (D-TX) who offers an interesting counter-point to increased regulation and moral hazard. He advocates eliminating the SEC and having investors rely upon their own due diligence and having the markets self-police themselves.

Helpful Hints: This is a good clip to generate classroom discussion on the pro's and con's of regulation.

(4 minutes, 8 seconds)

Link:

<http://www.cbsnews.com/video/watch/?id=4836927n&tag=contentMain;contentBody>

Description: March 1, 2009: CBS News 60 Minutes, “The Man Who Knew,” interview with Harry Markopolos, his interactions with the SEC, along with two victim interviews. This was filmed on 2 February but aired on 1 March.

(13 minutes, 50 seconds)

Link: http://www.youtube.com/watch?v=L59Z5V_imbc

Description: May 1, 2009: Brockton Enterprise interview at Whitman-Hanson high school's annual law day with Harry Markopolos looking back at the investigation, the importance of civic duty and its affect on his family.

(4 minutes, 59 seconds)

Link:

<http://www.pbs.org/wgbh/pages/frontline/madoff/interviews/casey.html>

Description: May 12, 2009: Public Broadcasting System Frontline interview with Frank Casey as he discusses the investigation. PBS provides the full transcript of this interview.

(3 minutes, 2 seconds)

Link: <http://www.fraudconference.com/recap-article.asp?copy=markopolos-address>

Description: July 14, 2009: Association of Certified Fraud Examiners 20th Annual Conference, Las Vegas, a series of seven video clips totaling approximately 32 minutes in length where Harry Markopolos discusses the difficulties, danger and challenges of his team's eight and one-half year long investigation.

Helpful Hints: These clips are oriented toward the investigation and provide an inside look at what fraud examiners experience when investigating global criminal conspiracies. These clips are particularly relevant for accounting students, finance students, law school students and practitioners.

(32 minutes, 7 video clips by category each running 4 – 5 minutes in length)

Link: <http://www.c-span.org/Watch/Media/2009/09/10/HP/A/23036/Senate+Banking+Cmte+Hearing+on+Bernard+Madoff+Investigation.aspx>

Description: September 10, 2009: SEC Inspector General H. David Kotz before the US Senate Banking Committee (the first 94 minutes of this 2 hour, 26 minute hearing). Angry US Senators query the SEC IG on his excellent and comprehensive report on the Madoff Ponzi scheme.

(94 minutes)

Description: September 10, 2009: Harry Markopolos, SEC Director of Enforcement Richard Khuzami, and SEC Acting Head of the Office of Compliance, Inspections and Examinations before the US Senate Banking Committee (the later 70 minutes of this 2 hour, 26 minute hearing). A series of exchanges between Mr. Markopolos and the SEC's two Senior Staff on what needs to be done to reform the SEC with Mr. Markopolos recommending that at least half of the SEC's current staff be replaced.

(70 minutes)

Link: <http://www.cnbc.com/id/15840232?video=1356320753&play=1>

Description: December 11, 2009: *CNBC Scam of the Century One Year Later*, This clip leads with the original breaking news story of Madoff's arrest followed by an interview with Madoff's lawyer Ira Sorkin where he discusses where the money went along with interviews with securities lawyers who discuss the tremendous reputational damage the SEC has suffered. (6 minutes, 1 second)

Documentaries

Link:

<http://www.pbs.org/wgbh/pages/frontline/madoff/interviews/casey.html>

Description: Frank Casey's interview with PBS Frontline. There is a full transcript of this interview along with a 3 minute, 2 second video clip.

Link: <http://www.pbs.org/wgbh/pages/frontline/madoff/view/>

Description: May 12, 2009 PBS Frontline documentary *The Madoff Affair* by veteran correspondent Martin Smith takes an in-depth look at the Feeder Funds and their complicity in the largest Ponzi scheme in history. Frank Casey and Michael Ocrant of my investigative team provide interviews. There is also some very good footage from the 4 February 2009 Congressional hearings related to the SEC's ineptness and arrogance.

Written Testimony

Link: <http://financialservices.house.gov/markopolos020409.pdf>

Description: February 4, 2009: Congressional Testimony of Harry Markopolos before the US House Capital Markets Sub-Committee. E-mails, accounting statements, SEC Submissions, and other evidence assembled over an 8 ½ year period. One caveat, my timeline and the SEC's timeline vary slightly but not materially. I believe that the SEC IG's Report is more accurate because he had access to more and higher quality information from within the SEC and from outside witnesses. There was some evidence that was not made public and which you won't see here because it dealt with law enforcement matters. And, unfortunately, the file we sent to Congress containing my written testimony was an early draft version that contained errors and typos. We

intended to send a different, better crafted file but what you are reading here is the version that was sent to Congress.

Note: All errors contained within are the author's.
(375 pages)

Link: <http://www.sec.gov/news/studies/2009/oig-509.pdf>

Description: August 31, 2009: SEC Inspector General's Report entitled, "Investigation of Failure of the SEC to Uncover Bernard Madoff's Ponzi Scheme."

Note: This is the public version of the report and has some text redacted to protect on-going law enforcement activities.

Helpful Hints: The 22-page Executive Summary on pages 20 – 41 is a must read for accounting professors, finance professors, fraud examination professors, and securities law professors.

(457 pages for the full report or 22 pages for the Executive Summary)

Link:

http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7b38b6a3-f381-4673-b12c-f9e4037b0a3f&Witness_ID=c5cdf216-c839-4d4d-b3f1-99fcc6d568da

Description: September 10, 2009: SEC Inspector General H. David Kotz's written testimony before the US Senate Banking Committee on the Madoff Investigation. (21 pages)

Link:

http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7b38b6a3-f381-4673-b12c-f9e4037b0a3f&Witness_ID=d3b406b2-ddda-4bd7-b54b-c3111a947b3e

Description: September 10, 2009: SEC Director of Enforcement Robert Khuzami's written testimony before the US Senate Banking Committee on the many structural reforms the SEC is undergoing at a rapid pace in the wake of the Madoff fraud. I will say one thing, the SEC is certainly not operating at the speed of government and they know they have to get a lot better and become a lot more nimble. You can see in this testimony that Mr. Khuzami has an aggressive plan for change and that the agency is committed to change.

(26 pages)

Link:

http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=7b38b6a3-f381-4673-b12c-f9e4037b0a3f&Witness_ID=43ec0e5b-40f8-42c5-94aa-c72568f6f75c

Description: September 10, 2009: Written testimony of Harry Markopolos, CFA, CFE before the US Senate Banking Committee. I discuss the difference between ethics and the law, what happened during the SEC's investigation, and list several recommendations for improving the SEC. I also detail how they need to conduct their examinations and attack fraud. This is good reading for students interested in white-collar crime and how to catch C-Level fraudsters (CEO, CFO, GC, and so on). (37 pages)

PDF: 2008 ACFE Report to the Nation Excerpts.pdf

Description: 2008 ACFE Report to the Nation

PDF: Markopolos *Fraud Magazine* article.pdf

Description: *Fraud Magazine* article "Chasing Madoff: An Interview with Harry Markopolos, CFE, CFA," May/June 2009.

SEC Depositions of the Markopolos Investigative Team

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0016.pdf>

Description: March 31, 2009: SEC OIG Exhibit # 16: 77 page Deposition of Team Member Frank Casey. Of the 77 page transcript, the SEC only provides 5 pages so it's a quick read but not very meaty. He must have tread on some sensitive areas for this transcript to have been so heavily edited. The SEC asked us to not talk about our depositions so even I don't know what transpired during Frank's testimony but since we were teammates I have a good idea of what each of the team would have provided the SEC.

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0015.pdf>

Description: March 31, 2009: SEC OIG Exhibit # 15: Deposition of Team Member Neil Chelo, CFA, FRM, CAIA where Mr. Chelo describes some of the activities of being on my team and the red flags that the team was concentrating on.

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0001.pdf>

Description: February 5, 2009: SEC Exhibit # 1: 195 page Deposition of Team Member Harry Markopolos, CFA, CFE.

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0074.pdf>

Description: January 12, 2009: SEC OIG Exhibit # 74: Deposition of Team Member Michael Ocrant. Michael was the investigative journalist on the team and he had the most Ponzi scheme experience on the team as well.

Helpful Hints: Go to page 19 for Michael Ocrant's discussion of his in-person interview with Bernard Madoff in the Lipstick Building in April 2001. On May 1st, Mr. Ocrant publishes his expose of Madoff in MAR Hedge.

SEC Interviews with Industry Insiders

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0071.pdf>

Description: January 6, 2009: SEC OIG Exhibit # 71: Heavily redacted 40 page or so transcript of an interview of a research firm CEO. Lots of law enforcement redactions here but it's an exciting read with lots of astute observations about what type of criminal case this really is.

Helpful Hints: Note his interactions with Fairfield Greenwich, Madoff's largest Feeder Fund and Maxim. (Estimated reading time: 25 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0076.pdf>

Description: January 23, 2009: SEC OIG Exhibit # 76: 6 page transcript of Laura Goldman, Investment Advisor, LSG Capital. This is a woman who did a very quick and very effective due diligence check of Madoff and fingered him for a fraud. She also met with him in person and he refused to answer her questions. She's a former accountant and her colorful views of external audit effectiveness match those of most professional investors I know.

(Estimated reading time: 5 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0073.pdf>

Description: January 12, 2009: SEC OIG Exhibit # 73: Heavily excerpted 12-page transcript of a CEO who immediately smelled

something fishy. He asked three of his friends who invested with Madoff for their statements and couldn't make head nor tail of them which he found odd. He then asked each of them for Madoff's annual statement of financial condition / year-end financials and none of them could ever recall receiving them from Madoff. Here's someone who figured it out via the accounting angles.

(Estimated reading time: 5 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0077.pdf>

Description: March 6, 2009: SEC OIG Exhibit # 77: 6 page transcript of Gregory Stahl, CFA, SEI Investments about why his firm shied away from investing with Madoff after not being provided satisfactory transparency into what Madoff was doing. He had an investment discipline and once Madoff failed to provide transparency, he walked away while too many others were seduced by the steady return stream and rushed to hand over their money.

(Estimated reading time: 5 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0072.pdf>

Description: January 6, 2009: SEC OIG Exhibit # 72: 7 page memo of an interview at a Wall Street Investment Bank that sent in a 30 person due diligence team to inspect a firm that was trying to sell itself but which had significant Madoff exposure. The I-bank quickly figured out that Madoff's returns were unlikely and likely generated from illegal activity but they never reported it to the authorities. The firm says it won't turn in fraudsters for fear of defamation, asking the SEC to provide guarantees of confidentiality so that it can do so in the future.

Helpful Hints: This is a good transcript to discuss ethical issues surrounding industry self-regulation. Ask students if they think the firm should have reported the results of their due diligence investigation to the authorities.

(Estimated reading time: 5 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0084.pdf>

Description: March 26, 2009: SEC OIG Exhibit # 84: Unidentified Hedge Fund Manager reports Madoff as a likely fraudster to the SEC in 2003 and details his story in this 13 page transcript. Obviously this person is a conscientious citizen who went out of his way to alert the SEC to no avail.

(Estimated reading time: 10 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0085.pdf>

Description: April 7, 2009: SEC OIG Exhibit # 85: Unidentified Chief Information Officer at a Fund of Funds firm who is also a derivatives expert who determined that Madoff was a fraud in 1998 and again in 2003 in this 14 page transcript. This gentleman uses his knowledge of the Chicago Board Options Exchange to debunk the Madoff scheme. He catches Madoff lying to him in his 1998 interview.

(Estimated reading time: 10 minutes)

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0089.pdf>

Description: April 9, 2009: SEC OIG Exhibit # 89: 12 page transcript of an interview with John Guthery, CFA, Vice-President, LPL Financial, Boston, MA. Mr. Guthery is approached by Madoff's 2nd largest Feeder Fund complex about investing but is warned by an industry contact that Madoff is a Ponzi scheme and he should just avoid it. He does some due diligence and there are enough other red flags that he declines to recommend this fund to his firm. He then volunteers to assist the SEC afterwards once news breaks that Madoff was actually running a Ponzi scheme.

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0075.pdf>

Description: January 22, 2009: SEC OIG Exhibit # 75: 22 page transcript of James Hedges VI, President & Chief Investment Officer, LJH Global Investments. Here's a due diligence expert who met with Madoff in 1997 and quickly determined that he was a fraudster. Interestingly he tried to get the financial press to write about Madoff but he felt the press was intimidated by Madoff and afraid of him – this matched my team's experience, the press was definitely not interested in writing about Madoff.

Madoff Case Filings

PDF: October 2009 Bankruptcy Trustee v. Madoff Family Members Case.pdf

Note to reader: Exhibits not included.

Madoff Deposition and Deceptions

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0267.pdf>

Description: 2006 SEC Interview of Bernard L. Madoff

May 19, 2006: SEC OIG Exhibit # 267: 25 pages of a 122 page deposition of the SEC New York Enforcement Team's meeting with Bernard Madoff. These 25 pages contain quite a few lies and, as you read the transcript, you'll see that Madoff totally pulled the wool over the SEC's eyes.

Helpful Hints: This is a goldmine of false answers and improper investigative technique, a veritable "*how not to*" for law students, accounting students, forensics students and finance students.

Below I list several obvious lies in the few pages of Madoff's 2006 testimony provided by the SEC IG. How did he get away with them? Simple, the SEC is a closed, insular bureaucracy run by securities lawyers who have no background in finance, accounting or investigations. More importantly, they refuse to reach out to industry sources or whistleblowers to find out what questions they should ask and what the proper answers to those questions should be. Fortunately, the SEC is now speedily revamping their processes and training to prevent further embarrassments such as this. The SEC actually had derivatives experts in their Washington based Office of Economic Analysis (OEA) but they were never adequately consulted prior to this deposition.

Here are a few things you should concentrate on:

- On page 59, lines 2 & 3: He says the executions happen electronically but then he goes on to describe getting on the phone and negotiating the final price which is not electronic trading.
- On page 61, lines 10 -12: He says he never tells the brokers the total amount of options contracts he is going to trade yet he's trading huge size. To trade huge size you do have to make price concessions because large size moves markets so his answer here is not plausible. And, Madoff's explanation that he shops for bids from 50 different European stock brokers and 12 European options brokers is about as bold-faced a lie as one will ever see. Let me explain, if you notify 50 different stock brokers that you are going to be moving large size the 49 brokers that don't get your order now have valuable inside information and would be, if they wanted to make a quick profit, incentivized to front-run your order flow. I've never heard of anyone shopping large trades to that many brokers as you'd be insane to do so.

- On page 63 – 64 he says he trades his stocks at different times and averages the price out, giving his customers the same average price. Yet he says he doesn't do that for the options, preferring to trade them all at once so he can deliver one average price to his clients. This makes no sense since averaging options prices and averaging stock prices is just simple math and there is no functional difference between the two. You merely add up all of the day's options trades times the prices you traded at and divide by the total number of options traded to arrive at an average options price. How he got away with this bold-faced lie has me flabbergasted.
- Page 64, lines 17-19: Madoff says he charges 4 cents per share but only 1 cent per share equivalent on the options. This makes no sense since shares and options are mathematically equivalent when it comes to paying commissions. Basically, if you pay \$1 per options contract you are paying the equivalent of 1 penny in commissions. An options trader would have said, "I pay \$1 per options contract" so Madoff's terminology in this interview proves that he knows absolutely nothing about options trading, but then again, neither did the SEC's New York Staff.
- Page 65, lines 1 – 6: Madoff says you don't want to trade options on the US stock market during US market hours because there isn't enough liquidity in our options markets here. This is another bold-faced lie! There is a ton more liquidity for US stock index options in the US markets than in Europe after-hours or before the US markets open. Trading off hours in foreign markets has vastly less liquidity associated with it and that means you can't trade large size overseas nor will you get very good prices.
- Page 66, lines 21 – 24: Madoff says he is taking on tremendous price risk by trading billions in US stocks overseas then between 8 – 9 am he puts on his options trades overseas too. The magnitude of Madoff's size would move our markets before they opened every day he did these trades (if he actually did them which he never did). Not to mention, owning stocks without options hedges in place would lead to down months yet Madoff had very, very few down months and was never down by more than 0.55% in any one month.
- Page 76 – 78: Madoff lies again and tells the SEC his returns are not high enough to justify setting up a hedge fund. Of course, the truth is the Feeder Funds set up hedge funds just to offer Madoff's product and, in fact, Madoff's return stream was very attractive from a hedge fund standpoint. On a risk-adjusted basis (called the Sharpe Ratio), Madoff had performance that was at or very close

to the top of the performance charts over every period of time you cared to measure.

- Pages 87 – 90: This is where the SEC should have caught Madoff and they probably came very close. They ask him a series of questions about the Depository Trust Clearing Corporation, even obtaining his DTC number, but then never follow up with DTC to check to see if he was trading (he wasn't)! The SEC's unwillingness to check with any outside third parties to confirm information was what allowed this fraud to continue on for decades.

Accounting Statements

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0236.pdf>

Description: January 31, 2004: SEC OIG Exhibit # 23: January 2004 Statement for Tremont Broad Market Fund LDC: 12 page statement. Keep in mind that Tremont was Madoff's 2nd largest Feeder Fund with over \$3 billion invested at the end of the scheme.

Helpful Hints:

- Focus on the “No Balance Forward” at the beginning of the month – does that make sense?
- How come there are no commas to denote thousands of shares bought or sold?
- How come the use of green bar paper in the new millennium?
- Was Bank of America really the custodian?
- Notice how the account number 1FR010-3-0 uses different font sizes which is awfully suspicious don't you think?
- Notice how the opening trades are on different pages from the closing trades making it much harder to determine realized gains and losses.
- Notice there are no balances and no positions carried over to month end.
- These statements are so different from legitimate, industry standard account statements that my team and I always wondered how Fund of Funds missed this fraud. Talk about missing the obvious: this was a firm noted for its being on the leading edge of trading technology yet these statements don't make sense, are unreadable, and use 1980's print technology.
- What other odd things do you see on these statements?

Link: <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0237.pdf>

Description: SEC OIG Exhibit # 237: 11 pages of Tremont Trade Data produced to NERO Examination Team dated January 2004

Helpful Hints:

- Ask yourself, in 2004, given the state of computer technology, how in the world do these trading records make sense?
- Do you consider them to be in readable, understandable form?
- On the last page notice how Banco Santander has the account number 1-FR062-3-0 and is custodian FBO Genesis Endowment but on the first page Bank of America is the custodian FBO Tremont Broad Market Fund LDC with a Bank of America account number 1-FR010-3-0. How likely do you think it is that two different banks in two different countries have such similar account numbers? The depositions of SEC Examiners Peter Lamore and William Ostrow show that they noticed these discrepancies but never investigated them.
- Why do you think the Feeder Funds never noticed any of this?

Madoff Feeder Funds

PDF: 02202008 Fairfield Greenwich Sentry Update.pdf

PDF: 04062009 NY AG's Complaint v. Ezra Merkin (Madoff Feeder Fund Operator).pdf

PDF: Merkin Case Exhibits 1 - 20.pdf

PDF: Merkin Case Exhibits 21 - 26.pdf

PDF: Merkin Case Exhibits 27 - 48.pdf

PDF: 09082009 Fairfield Greenwich Consent Order with Massachusetts.pdf

Note to reader: Exhibits not included.

PDF: Bankruptcy Trustee complaint v. Cohmad Securities, a Madoff Feeder Fund.pdf

Note to reader: Exhibits not included.

PDF: FGG_Capabilities_Brochure_Nov2008.pdf

Link: <http://financialservices.house.gov/markopolos020409.pdf> (See Exhibit 78 on pages 248-256 of the pdf.)

Description: 8-page Pitch Book for Wickford Fund LP, May 2007