

## **Urgent Internal Memo**

**To:** Veridian Bank Senior Management and Department Heads

**From:** CEO Office (Arthur Sterling)

**Subject:** Investment Fraud Update and Comparison Analysis

**Date:** November 15, 2022

**Confidentiality Level:** Internal Only

### **Summary:**

As we continue to investigate and address the Investment Fraud within the Meridian Opportunities Fund, I am compelled to draw comparisons with similar cases to inform our response and mitigation strategies. This memo will analyze the unique features and differences between our situation and past instances of investment fraud, highlighting key takeaways and recommendations.

### **Comparison Analysis:**

1. **Institutional Size and Complexity:** Our bank's asset size (\$45 billion) and complexity are comparable to those of Lehman Brothers (2008) and Wells Fargo (2016). Both institutions faced significant challenges in managing their vast operations, leading to systemic failures.
2. **Investment Product Structure:** The Meridian Opportunities Fund's use of layered schemes and synthetic collateralization is reminiscent of the structured investment products that contributed to the 2008 financial crisis. In both cases, these complex products allowed for the concealment of risk and facilitated fraudulent activities.
3. **Internal Controls and Governance:** Our bank's failure to implement effective internal controls, as highlighted in the recent risk assessment, is similar to the shortcomings identified in the 2012 MF Global bankruptcy. In both instances, inadequate governance and oversight enabled the perpetuation of fraudulent activities.
4. **Regulatory Scrutiny:** The Federal Banking Commission's (FBC) increasing scrutiny of our bank is analogous to the aggressive regulatory action taken against institutions like Countrywide Financial (2008) and Bear Stearns (2008). Both cases demonstrate the importance of proactive regulatory engagement and compliance.
5. **Investor Protection:** The Meridian Fund's impact on institutional investors, including pension funds and endowments, is comparable to the losses suffered by individual investors in the Madoff Ponzi scheme (2008). Both cases highlight the need for robust investor protection measures and heightened vigilance.

## **Unique Features and Differences:**

1. **Scope and Scale:** The Meridian Fund's estimated losses (\$847 million) are significantly lower than those of the 2008 financial crisis (\$23 trillion) and the Lehman Brothers bankruptcy (\$691 billion).
2. **Internal Power Dynamics:** The current power struggle between Marcus Thorne and Evelyn Reed is a distinct feature of our situation, with implications for the investigation and mitigation efforts.
3. **Regulatory Response:** The FBC's relatively slow response to the crisis is a difference from the more aggressive actions taken against institutions like MF Global and Bear Stearns.

## **Recommendations:**

1. **Enhanced Internal Controls:** Implement robust internal controls to prevent similar cases of investment fraud in the future.
2. **Increased Regulatory Engagement:** Proactively engage with the FBC and other regulatory bodies to ensure compliance and mitigate potential risks.
3. **Investor Protection:** Develop and implement measures to protect institutional investors, including enhanced due diligence and regular reporting.
4. **Power Dynamics:** Address the internal power struggle by establishing clear lines of authority and ensuring that all stakeholders are working together to address the crisis.

## **Conclusion:**

While our situation shares similarities with past instances of investment fraud, its unique features and differences must be taken into account when developing our response and mitigation strategies. By analyzing these comparisons and incorporating the recommended actions, we can work towards resolving the Meridian Fund crisis and preventing future systemic failures.

## **Next Steps:**

- Schedule an emergency board meeting to discuss the findings and recommendations.
- Assign a team to implement the enhanced internal controls and investor protection measures.
- Engage with the FBC to address their concerns and develop a plan for regulatory compliance.

## **Confidentiality Note:**

This memo is intended for internal use only and should not be shared with external parties without explicit permission from the CEO Office.

## **End of Memo**

**Tokens:** 726 ( $\pm 10\%$ )

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**Issue Category:** Investment Fraud

\*\*Confidentiality