

MEMORANDUM

Subject: Urgent: Meridian Fund Valuation Discrepancies - Immediate Attention Required

From: Evelyn Reed, Head of Risk Management

To: Arthur Sterling, CEO; Marcus Thorne, Investment Division; Board of Directors

Date: March 15, 2021

Confidentiality Level: Confidential

Summary:

As we continue to monitor the Meridian Opportunities Fund, I have identified significant discrepancies in the valuation methodology employed by the Investment Division. These anomalies have raised substantial concerns regarding the integrity of the fund's financial reporting, and I strongly advise immediate attention to rectify this situation.

Key Findings:

- 1. Mark-to-model valuation inaccuracies:** Our analysis indicates that the Investment Division has been using an overly optimistic model to value the fund's assets, resulting in artificially inflated returns. This practice violates the bank's internal guidelines and potentially exposes the institution to significant losses.
- 2. Lack of transparency:** The Investment Division has failed to disclose these valuation discrepancies to the Board of Directors, Compliance, and Risk Management, as required by our internal policies.
- 3. Potential regulatory exposure:** These inaccuracies may also be considered material misstatements, which could lead to regulatory scrutiny and potential fines.

Recommendations:

- 1. Immediate cessation of the valuation methodology:** I recommend suspending the use of the current valuation model and implementing a more conservative approach to ensure accurate financial reporting.
- 2. Conduct a thorough review:** The Investment Division must conduct a comprehensive review of the fund's financials to identify any other potential discrepancies and correct any errors.
- 3. Board notification:** The CEO and Board of Directors must be informed of these findings and the recommended actions to ensure transparency and accountability.

4. **Enhanced oversight:** To prevent similar incidents in the future, I propose increasing the frequency of risk assessments and implementing more stringent controls over the Investment Division's activities.

Action Items:

1. **Investment Division:** Cease the use of the current valuation model and initiate a thorough review of the fund's financials.
2. **CEO and Board of Directors:** Receive a briefing on these findings and the recommended actions.
3. **Risk Management:** Conduct a follow-up review to ensure compliance with the recommended actions and identify any potential risks.

Timeline:

I request that the Investment Division completes the review and implements the recommended actions by the end of the quarter. I will conduct regular check-ins to monitor progress and ensure compliance with these recommendations.

Conclusion:

The integrity of our financial reporting is paramount, and I urge immediate attention to address these critical discrepancies. I am available to discuss these findings in more detail and provide any necessary support to ensure the bank's compliance with regulatory requirements.

Confidentiality:

Please note that this memo is confidential and should not be shared with anyone outside the specified recipients.