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Bernard Madoff Fraud

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Abstract This report allows the facts to be known concerning the still mysterious case of Bernard L. Madoff and his longtime investment securities activities, which eventually turned into an enormous fraud of incomparable size. In this report, you will begin to understand how Bernard Madoff was able to execute such an elaborate fraud. The illegal business behavior found in this case is too numerous to count however, quite a few will be identified. In addition, the roles of the perpetrators, accomplices, and their involvement in this scheme will be made known.

This fraud had such an enormous impact on the victims, we will examine several implementations that the private investors could have implemented to protect themselves. An assessment of the perpetrators motives and the identity of some internal controls that could have deterred or prevented the fraud from occurring will be explored also. We will discover the action of the SEC and document how the fraud was discovered and investigated, including what should have been identified as "red flags". And finally, a variety of legal actions arose when the Madoff fraud was uncovered, which is leading to more litigation currently and in the future.

The Bernard Madoff's Fraud Introduction Bernard L. Madoff was the mastermind and the admitted operator of the biggest Ponzi scheme in American History. His Ponzi scheme is considered to be the largest financial fraud in U. S. history. He stole millions maybe billions of dollars from unsuspecting clients. Lives were shattered and fortunes ruined. He was a very ... ndals were revealed at the end of 2008. ... stockbroker, investment advisor, and ... DAQ stock market.

As the former chairman of the NASDAQ, Bernard Madoff had built a reputable business domain that continuously paid admirable dividends to investors; however, during the investigations by several federal government agencies, devastating facts against Bernard Madoff proved that he was running an elaborate ponzi scheme in order to attract a large number of investors from all over the world. (NBC, 2009) ("Bernard Madoff Fraud," 2012) Bernard Madoff managed and controlled his ponzi scheme by using an Investment Securities Limited Liability Company he founded in 1960.

He was chairman of this company and continued to operate his scheme until he was discovered in 2008. The fraud concerning Bernard Madoff was and still is the being covered by the media and it is suspected that the United States Securities and Exchange Commission (SEC) was notified and made aware on more than one occasion about this matter but they chose to ignore the information given to them. Perhaps there are more charges that can be filed, although Madoff's numerous offenses may already be enough to keep him in prison for the rest of his life. Markopolos, 2010) ("Bernard Madoff Fraud," 2012) How Madoff Executed the Fraud Madoff's scheme to defraud his clients at Bernard Lawrence Madoff Investment Securities (BLMIS) began as early as 1980 and lasted until its exposure in 2008. Bernard carried out this scheme by soliciting billions of dollars under false pretenses, failing to invest investors' funds as promised, and misappropriating and converting investors' funds to benefit Madoff, himself, and others without the knowledge or authority of the investors.

To execute the scheme, Madoff solicited and caused others to solicit potential clients to open trading accounts with Bernard Lawrence Madoff Investment Securities (BLMIS) on the basis of a promise from him. He promised to use investor funds to purchase shares of common stock, options and other securities of large, well-known corporations, and representations that he would accomplish high rates of return for client, with limited risk. ("United states of," 2009) Among other things, MADOFF marketed to clients and prospective clients an investment strategy referred to as a "split strike conversion" strategy.

Clients were promised that Bernard Lawrence Madoff Investment Securities (BLMIS) would

common stocks within the Standard & 00 largest publicly traded companies in that he would select a basket of stocks P 100. MADOFF urther claimed that he would opportunistically time those purchases, and would be "out of the market intermittently, i s' funds in these periods in United States Government issued securities such as U Treasury bills. MADOFF also claimed that he would hedge the investments that he made in the basket of common stocks by using investor funds to buy and sell option contracts related to those stocks, thereby limiting potential losses caused by unpredictable changes in stock prices. "United states of," 2009) Madoff's Illegal Business Behaviors Exposure Federal prosecutors filed a total of eleven charges against Bernard Madoff. The first of those charges was for securities fraud. The crime of securities fraud involves false claims of investment security holdings, and misinformation regarding stocks and brokerage advice. Sensational insider information is also considered a component of this criminal activity. Another major charge involved three counts of money laundering, both domestically and through international accounts.

Money laundering is the funneling of revenue acquired illegally into new monetary arrangements, with the intent of concealing this revenue's original origins. Plus, in connection with both his securities and investment adviser businesses, prosecutors also charged Madoff with mail and wire fraud. These offenses involve initiating schemes using either the United States Postal Service or telephone systems toward obtaining money and/or property in a false or unlawful manner. (Tomaszewshi, 2010) Perpetrators Involved in Bernard Madoff's Fraud

It's certainly not uncommon for one's son or daughter to enter into an identical business relationship as a successful family member such as a parent. However, in Bernie Madoff's case this approach was taken to extreme levels of nepotism. Peter Madoff entered his brother's firm in 1967, and as business prospered he began to accumulate several executive titles: Senior Managing Director, Head of Trading, and even Chief Compliance Officer for both the broker-dealer and more secretive investment advisor business models.

Bernie's sons Mark and Andrew joined the firm in the mid-to-late 1980s, and eventually were made co-directors of Madoff Securities International in London, England. Bernie's nephew Charles joined up in 1978, and became the Director of Administration for the investment firm. And Peter's daughter Shana was hired on in 1995, and served as in-house Legal Counsel and Rules Compliance attorney for the broker-dealer business. Other parties greatly impacted by Bernie Madoff's activities were his business associates and their many clients over the decades.

For example, Frank Avellino and Michael Bienes themselves funneled over three thousand clients to Madoff's investment advisory business. Madoff had consistently advised the pair to remain unregistered in their dealings. But when the SEC accused the duo of illegally selling securities, Madoff pretended ignorance of their activities, even though he had secretly instructed them all

to pay a fine of three hundred and fifty

rch by Madoff's growing fraud would go on to include Jeffrey Tucker and Walter Noel of Fairfield Greenwich Group. Non-related people w ked under Bernie Madoff also became tainted from the association following his

ployee group includes those who may have had indirect dealings through Madoff subsidiaries like Cohmad Securities Corporation. However, the idea also applies to those employed directly, such as former executive assistants Elaine Solomon and Eleanor Squillari.

Jeffry Picower was in industrialist and philanthropist who seemed to be a favored Madoff beneficiary, and made outlandish profits from his investments with Madoff. From 1996-2007 there were 14 instances of greater than 100% yearly returns and 25 of greater than 50%. From 1996-1999 his regular trading account made from 120-550% a year. Some evidence of backdating trades, instituted by Picower, has been presented by trustee Irving Picard. In December, 2010, his estate returned $7. 2 billion in profits to the government. Picower died before the settlement. (Tomaszewshi, 2010) Motives of the Perpetrators

The various perpetrators who were involved in Bernard Madoff's Ponzi scheme had different kinds of motives that were completely against the provisions evident in federal laws. Jeffry Picower had over twenty four different accounts with Investment Securities LLC and he operated them closely with Barbara who was also his wife. The motive of Jeffry Picower and his wife in Investment Securities LLC was to benefit from the cash windfall generated from devious deals according to reports; his investment into Madoff's company was once worth over one billion dollars. Kirchner, 2010) Annette Bongiorno was a senior employee at Bernard Madoff's illegal company and among her roles at the firm she was to brief investors concerning their returns which were all fictitious. Ezra Merkin was an investment expert who assisted Bernard Madoff to drain off extraordinary amounts of money from clients' accounts and it later emerged that he had a conflict of interest in the Madoff company. With its headquarters in Connecticut, Fairfield Greenwich Company misled investors into buying stakes at Madoff's illegal firm and in return, the company received huge amounts of cash from Bernard Madoff. NBC, 2009) Frank DiPascali was also another essential figure in Bernard Madoff's illegal investment scheme. One of the frauds committed by Frank is that he engaged in countless number of international money laundering activities to benefit Madoff's scheme. In addition to this, DiPascali also gave Mr. Madoff expert advice on how to go about his illegal businesses without being caught or detected by the federal authorities. (Arvedlund, 2010) ("Bernard Madoff fraud," 2012) Controls That Could Have Deterred the Fraud from Occurring

Despite the fact that Bernard Madoff's investment fraud was one of the largest to ever rock the United States of America, there are various strategies that might have prevented or deterred the fraud from occurring. To begin with, the United States Securities and Exchange Commission (SEC) should have without delay acted on the numerous signals that it received from different … nvestment activities, it would have been … deals.

… s of America also had a significant input towards enabling Bernard Madoff's illegal activities to spread at a very rapid rate; for instance, t… sion that stipulates private companies in the United States should only pay 5% of th… revenues. (NBC, 2009) ("Bernard Madoff fraud," 2012) Implementations That

Investors Should Have Used to Protect Themselves While some investors may yet believe they were tricked into believing Bernie Madoff's elaborate confidence game, it is also arguable that there were means to protect themselves at their disposal.

One method would be to practice due diligence whenever one is presented with new financial opportunities. Many investors were led astray on the poor advice of their won friends and family, which isn't a fiscally sound means of verification. Independent research needs to be done on the workings of any financial organization, even those that are supposedly reputable on the surface. One should investigate third-party custodial relationships at investment firms, and review their auditing practices. (Tomaszewski, 2010) Another way to avoid fraud is to actively request documentation.

Hand written notes from intermediaries are highly suspicious evidence that revenue is being transacted in a professional manner. Getting activity in writing must be joined to verifiable account numbers for auditing. Finally, a forceful amount of skepticism will often prevent one from falling into schemes which seem on the surface to be easy money generators. For instance, one should never believe the speculators on television. An unlicensed financial consultant is about as reliable an agent as allowing unreformed gambling addict free access to one's personal treasury.

Investors should not assume that overseers are actually doing their jobs, as even they might be in on the take. (Tomaszewski, 2010) The United States Securities and Exchange Commission (SEC) Involvement Critics and popular journalists from prominent media houses in the United States of America have called into question the manner in which the Securities and Exchange Commission handled the fraud case involving Bernard Madoff. This is due to the fact that even the commission itself has acknowledged that it should have detected Madoff's illegal activities as soon as they began.

The first major mandate or responsibility of the Securities and Exchange Commission is to interpret the laws pertaining to federal securities; such as, the commission should have detected the fundamental flaws in Bernard Madoff's investment activities at an earlier stage. The second major responsibility of the Securities and Exchange Commission is to work closely with international state and federal authorities towards ensuring that investment securities are controlled and channeled in the right paths. Arvedlund, 2010) Most notably the Securities and Exchange Commission failed to fulfill its mandate of evaluating the conduct of privately owned companies like Investment Securities LLC for a very lengthy time. The commission should have
tment advisors who collaborated with
from unsuspecting investors into their
ission published a detailed report in the
am escaped their attention for all those
years. (Strober, 2009) (Millstone, 2010)

How Madoff's Fraud was Discovered and Identifiable Red Flags His business came to be under the doubts of various financial analysts as early as 1999. They believed that the returns claimed by the company were only theoretically impossible. But organizations such as the Securities and Exchange Commission (SEC) completely ignored the doubts and Madoff continued with his overtures for almost another 10 years. He finally got caught in December 2008. He was trapped after he confessed about his dishonesty to his very own sons. He confessed to his sons of his investment business being nothing but a big Ponzi scheme.

His sons now reported his father's fraud to the Federal Bureau of Investigation. Though Bernie confessed to have had started his Ponzi scheme in the 1990's, investigators think otherwise. They believe the Ponzi scheme and defrauding of investors had begun in the 1980's itself. Now what actually happened was that in the very first week of December 2008, Bernie Madoff discussed his dilemma over having to pay his clients an amount of almost $7 billion as he didn't have that much funds. Now within the very next two days Bernie told his sons that he made a huge profit and had decided to give away an early bonus, amounting up to $173 million.

This confused the sons and they called for an explanation from their father. This is when their father confessed that his whole company worked through a "giant Ponzi scheme". On December 11th 2008, Bernie Madoff was taken into house arrest. Had the stock market not had been in a sharp decline in 2008, who knows how much longer the fraud could have continued. (Degrace, 2011) After writing that Madoff offers the biggest due diligence lesson for investors, some argued that the red flags are only obvious in hindsight and wouldn't have been so clear if one had to make the decision before Bernard's admission of running a Ponzi scheme.

So let's count the red flags to see if they were numerous enough and obvious enough to be easily recognized. (1) Madoff Investment Securities was both the broker dealer and investment advisor. (2) Madoff traded in the same securities that he recommended to advisory clients. (3) Madoff not only was the broker dealer, creating a conflict of interest where his firm was trading in the same securities as he was trading for clients, but he actually had custody of the assets. (4) They got into some hot water over some small compliance issues. Madoff's firm was censured and fined a small amount $7,000.

This meant they did have a blot on their records. (5) Jim Vos, head of Aksia – a hedge fund advisory firm, noticed that although Madoff's firm was supposedly highly advanced and automated, they sent paper copies of their trading records to clients instead of providing
off Investment Securities' auditors were
of one lone CPA with a small 13' by 18'
itor a firm that traded a good chunk of
loff didn't take the usual 2/20 fees most
hedge funds do. Instead he only profited from the trades that his firm was doing for the "
nd", claiming that this was enough. Given this form of compensation, it is very pc
"sophisticated investors" assumed that Madoff was involved in some sort of

shenanigans but turned a blind eye for those stable returns. (8) Madoff Investment Securities was a family business, with Madoff's brother, sons and daughter as well as his niece (married to a previous compliance officer) all worked at the firm. "The madoff red," 2008) The Case Resolution Bernie was charged of federal offences like securities fraud, mail fraud, wire fraud, perjury, and money laundering, false statement making only to name a few. He pleaded guilty and was banned from security investment business for a lifetime. He was sentenced to the highest degree of punishment possible under this act; an imprisonment of 150 years. He was sent to the Federal Prisons of North Carolina where he is registered as inmate number #61727-054 and his release from prison is dated November 14, 2134, a day he shall never see keeping in mind that he is now aged 71 years. Degrace, 2011) Conclusion Investment portfolios are one of the most recommended ways to enhance economic development not only at a personal level but also at a national level. However, Bernard Madoff chose to follow the short-cut to success by defrauding billions of dollars from investors. He begun very humbly by establishing a company called Investment Securities Limited Liability Company; he had begun with a figure of $5,000 as a penny stock broker but apparently, he had accrued this money from his previous job where he worked as an installer of water sprinklers and also a guard.

This took place in 1960 but little did investors know that it would grow to become the largest Ponzi scheme in the history of the United of America. Bernard Madoff drew assistance from all kinds of corners; various perpetrators who were involved in Bernard Madoff's Ponzi scheme had different kinds of motives that were completely against the provisions evident in federal laws. However, all this culminated in the arrest and sentence of 150 years in prison on the 29th of Junes 2009. References 1. Arvedlund, E. (2010). Too good to be true: the rise and fall of Bernie Madoff. Penguin Group. . Bernard madoff's fraud. (2012, June 07). Retrieved from http://www. customwritingtips. com/component/k2/item/8295-bernard-madoff's-fraud. html 3. Degrace, T. (2011, April 14). Bernie madoff fraud the history of the $50b Ponzi scheme scam. Retrieved from http://www. stockpickssystem. com/bernie-madoff/ 4. Kirchner, B. (2010). The Bernard Madoff Investment Scam. NJ: Pearson education, Inc. 5. Markopolos, H. & Casey, F. (2010). No one would listen: A true financial thriller. NJ: John Wiley & Sons. 6. Millstone, K. (2010, March 09). How madoff pulled it off.

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