

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

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In the Matter of:

OIG-509

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WITNESS: #13

PAGES: 1 - 47

PLACE: Securities and Exchange Commission
3 World Financial Center
New York, New York

DATE: March 26, 2009

The above-entitled matter came
on for hearing at 2:04 p.m.

COPY

1 A P P E A R A N C E S:

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3 On behalf of the Securities and Exchange
4 Commission

5

6 H. DAVID KOTZ, ESQ.

7 HEIDI L. STEIBER, ESQ.

8 CHRISTOPHER H. WILSON, ESQ.

9 Securities and Exchange Commission

10 3 World Financial Center

11 New York, New York 10281

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1 MR. KOTZ: We're on the record
2 at 2:04 p.m. on March 26, 2009 at the
3 United States Securities and Exchange
4 Commission. I'll ask the Court Reporter
5 to swear you in.

6 M I C H A E L K R E S S,

7 having first been duly sworn by a
8 Notary Public of the State of New
9 York, was examined and testified as
10 follows:

11 EXAMINATION BY

12 MR. KOTZ:

13 Q. Could you state and spell your
14 full name for the record, please.

15 A. Sure. Michael Kress,
16 M-I-C-H-A-E-L, K-R-E-S-S. And I'm also a
17 junior.

18 Q. My name is David Kotz. I'm the
19 Inspector General of the United States
20 Securities and Exchange Commission. I
21 have with me Heidi Steiber and Chris
22 Wilson. This is an investigation by the
23 Office of the Inspector General, Case
24 Number OIG-509.

25 I'm going to ask you certain

1 A. I don't know.

2 MS. STEIBER: You said the Ponzi
3 scheme review is different from other
4 types of reviews, what does it entail?

5 THE WITNESS: Well, a Ponzi
6 scheme covers your back end, your custody
7 and your cash rumors. So, when you look
8 at a Ponzi scheme you need bank accounts,
9 you need securities movement, custodial
10 records. When you look at front running,
11 front running you need auditors, audit
12 times and execution times, so it's a front
13 end review.

14 MS. STEIBER: But I want to hear
15 more about the Ponzi. If I were doing a
16 Ponzi review, what steps would I take and
17 what records would I seek?

18 THE WITNESS: You would need
19 custodial records from the custodian, you
20 would need the bank accounts to see the
21 movement of funds coming in and out, and
22 then you would match the movement of funds
23 with the front end.

24 MS. STEIBER: What if I had a
25 self-custody situation, what would I do