RE: madoff

3/24/2004 2:52:23 PM

From:
To: Donohue, Mark J [redacted]

Just a follow-up. The split-strike strategy, as I understand it, entails selling a covered call and buying an index put. Selling the call should be reflected by an inflow or credit to the client fund account, as well as the commission charged by Madoff for the trade itself, an outflow or debit from the account.

From Sway 1-FN043-3-0 and 1-FN043-4-0:

Leg 1 of the Collar:

5/8/02, (trade date 5/7), transaction 6006,--Bought Received 13 S&P 100 Index May 520 Calls @ 23.3 and Madoff debited $30,290 from the account

5/8/02, (trade date 5/7), transaction 6006,--Sold Delivered 13 S&P 100 Index May 520 Calls @ ASSIGN and Madoff credited $30,290 to the account

Leg 2 of the Collar:

5/8/02, (trade date 5/7), transaction 17182,--Bought Received 13 S&P 100 Index May 520 Puts @ 8.5 and Madoff debited $11,063 from the account

5/8/02, (trade date 5/7), transaction 17182,--Sold Delivered 13 S&P 100 Index May 520 Puts @ ASSIGN and Madoff credited $11,063 to the account

Leg 3 of the Collar:

There should be a purchase on 5/8/02, trade date 5/3/02, for 1300 shares of the S&P 100 Index or some composition thereof of the individual components, that totals 1300 shares. Again, I am assuming that the collar is completely put on on the same trade date. However, a total of 18,551 shares were bought/received, way more than a 1:1 hedge.

DIVISION EXHIBIT 24

Madoff stated in his letter that he charges $1 commission equivalent per option contract.

Just looking at the call leg of the collar transaction...

Selling Open 13 S&P 100 May 520 Calls @ 23.3=$30,290 credited to the fund client account. (So, I guess we can assume that the true average price is $22.3/contract + $1, totalling $23.3/contract.) But, I'm confused because, although Madoff should charge $1 for each contract purchased, a debit of $1300, the premium received from the selling open of 13 S&P 100 May 520 calls, $28,990, should be a credit to the client account.

But, we see a debit ***and*** a credit for $30,290 for trades "in and out" of the S&P 100 May 520 Call position established on trade date 5/3/02 and settled on 5/8/02, instead of a $28,990 credit and a $1300 debit and then the same amounts again for a transfer of the position (and the premium received from the sell open) out of the account ...why? Alternatively, an assignment of the position would mean that the fund client must sell 1300 shares of the S&P 100 @ 22.3, plus commission costs of $.04 /share, which at $22.34/share equals $29,042, a credit to the account. So, we should see another credit to the fund client account for $29,042.

I think we should see a credit for $28,990 and a debit for $1300, for the opening transaction of the call, and then, in the case of a transfer of the position, a debit from the account of the premium received, $28,990, as well as a transfer fee, which could be $1 per option contract, which would be $1300. So, maybe we should clarify what the commission equivalent is for transferring equity/option positions out of the fund accounts.

Although Madoff executes the strategy, does that mean he also executes any assignments that may occur?? Would he consider these types of transactions part of his strategy?? I think we can assume in some instances that an option trade can be assigned after the position is transferred to the custodial bank account, right? (The trades in teh fund accounts seem to refloect that all executions are transferred to the custodial bank on settlement date. What broker would handle that assignment?

-----Original Message-----
From: Donohue, Mark J.
Sent: Wednesday, March 24, 2004 11:15 AM
To: Walker, Genevievette
Cc: Wood, Jacqueline
Subject: RE: Madoff

Gen, let's chat about this when you get a chance.

-----Original Message-----
From: Walker, Genevievette
Sent: Wednesday, March 24, 2004 9:57 AM
To: Donohue, Mark J.
Cc: Wood, Jacqueline
Subject: FW: Madoff

Based on what we discussed, I'm going to compare the largest feeder fund, by commission equivalent revenue, that uses the split-strike forward conversion strategy and the largest non-feeder fund, by commission equivalent revenue, that uses the strategy, for the months of May and June 2002. Those funds are Fairfield Sentry (totaling $4,696,278) and Yeshaya (totaling $63,597), respectively.

Also, just to follow-up about #3 in my e-mail from yesterday, in my experience, when securities are transferred from the executing brokerage account to another account of the same accountholder, for example the account holder's prime brokerage account, the notation is usually "Journal" or "Transfer" and not "Assign". I interpret "assign" to mean that the option was assigned by OCC and "Expire" to mean that the option expired (hence my reference to the 3rd Friday). Also, when securities are journalled or transferred, the account to which the securities have been journalled is also noted, for example, "Journal 7555", which would mean that the securities were journalled to account 7555, another account of the same account holder. Because the account statement is used by the executing broker, prime broker or custodial bank, account holder and regulatory authorities to determine the account's position, accurately reflect trading activity and commissions charged, etc., in the case of securities being transferred/journalled from one account to another, indication of where the securities have been journalled or transferred is a record-keeping/regulatory necessity.

Lastly, in my below-referenced trading activity comparison, I focused on Tremont sub-acct #1-FR010-3-0 and Sway sub-account #1-FN043-3-0. However, as noted by Madoff, some accounts have multiple (sub)-accounts that are part of the fund management group. So, for example, Tremont Broad Market Group has 8 sub-accounts that comprise the Tremont fund (Madoff) client account and Sway Pension Fund has 2 sub-accounts that comprise the Sway fund (Madoff) client account. But, it is unclear whether the strategy is executed individually in each of these accounts or across the entire account, via the sub-accounts, in some sort of weighted fashion?? I think we need to determine that by either examining the trading in each sub-account and then conducting an intra-fund trade pattern comparison OR by just asking Madoff. I think it's probably a good idea to do our own independent analysis, as well as ask Madoff how the strategy is executed/how trades executed using the strategy are apportioned among the sub-accounts of each individual fund client.

Let me know your thoughts.

-Gen

-----Original Message-----
From: Walker, Genevievette
Sent: Tuesday, March 23, 2004 6:35 PM
To: Donohue, Mark J.
Cc: Wood, Jacqueline
Subject: Madoff

In my review of the documents we have for Tremont (a large fund) and Sway (a smaller fund), I noticed some basic differences. Madoff stated to us that "The specific model used to execute the split strike conversion orders of...clients has client defined conditions that must exist at the time of execution. These conditions dictate **which securities** are executed and **the quantity** of each order. However, if it is a given that each client is utilizing the strategy in the same manner, as specified by Madoff, there are significant differences between the Tremont and Sway account transactions:

1) The trade dates vary. For example, the initial May 2002 transaction for Sway is settlement date May 3, 2002, but for Sway it is May 10, 2002. If these were T+3 transactions, the variation in transaction dates, April 30 and May 7, 2002, for a strategy that "activates" when the "Madoff-specific" conditions occur, does not make sense. Moreover, Tremont's settlement dates of May 3, May 6, May 9, May 10, May 20, May 21, and May 22 vary greatly from Sway's settlement dates of May 10, May 23 and May 24. (These are dates for the equity transactions only.)

2) Also, I noted that Tremont traded on 7 days versus Sway which traded on only 3 days. Shouldn't the trading be almost identical if trading in the accounts "activates" via the strategy conditions aligning?

3) Why don't we see the corresponding equity activity/or hedge restructuring when the options trades are assigned?

-Gen

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