

Bernard_L_Madoff_Investments.doc

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From: Nee, John

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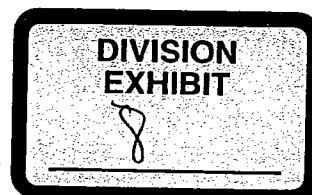
To: Ostrow, William D.

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FYI Most recent NASD Exam Report.



Exam Report

Regulatory Summary

Apparent Violation Rationale	Recommended Action
No Apparent Violations	Filed Without Action

Background

Business and Operational Section:

Bernard L. Madoff Investment Securities LLC ("the Firm") has been a member of NASD since March 25, 1960. The Firm is also a member of CSE, MSRB, DTC, OCC, NSCC and SIPC. The Firm is currently organized as a limited liability company and is wholly owned by Mr. Bernard L. Madoff (CRD# 316687). The Firm is a Level 2 firm, and the current net capital category is 15c3-3 Ai Nasd \$250k. The Firm operates pursuant to 15c3-1(a)(2)(i) and is required to maintain a minimum net capital requirement of \$250,000. Due to the number of stocks that the firm makes markets in, the firm's requirement is increased to \$1,000,000. The Firm is self clearing. The Firm engages in market making and also trades securities for its own account.

Service Bureau: None

Types of Business	Percentage of Revenue	Method of Processing
Broker or dealer making inter-dealer markets in corporate securities OTC	30%	Bernard L. Madoff
Trading Securities for own account	70%	Bernard L. Madoff

The Firm's internet home page is: www.Madoff.com

The Firm processes approximately 2,400,000 transactions per month. Greater than 99% of the firm's orders are from broker dealers, orders will be accepted electronically by other firms hitting the firm's bid or ask. Bernard L. Madoff Securities, LLC, has developed a computer program, Madoff Integrated Support System (MISS) that automatically executes orders with broker dealers. The firm also has approximately thirty (30) institutional customers that transmit orders through Bloomberg for execution. These orders will be handled the same way in which broker dealer orders are handled.

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The following material changes occurred at the Firm within the last six months: None

Offices, Ownership and Personnel:

The Firm employs approximately 80 registered persons that operate from its main office. The firm does not maintain any branch office locations.

Ownership:

Name	Title	CRD Number	Percentage Ownership
Peter Barnett Madoff	Chief Compliance Officer	316688	Less Than 5%
Bernard Lawrence Madoff	Sole Member	316687	75% Or More

Supervisory Personnel:

Business Activities	Name	Date Assumed
General Compliance	Peter Madoff	June 1969
Anti-Money Laundering Compliance	Peter Madoff	April 2002
Financial Reporting	Bernard L. Madoff	March 1960
Operations	Bernard L. Madoff	March 1960
Options	Peter Madoff	April 1976
Trading /Market Making	Andrew Madoff & Mark Madoff	December 1999 November 1999
Customer Complaints	Bernard L. Madoff	March 1960
Written Supervisory Procedures	Peter Madoff	June 1969
Review of Supervisory System	Bernard L. Madoff	March 1960
Customer Inquiries	Bernard L. Madoff	March 1960

Exam History

The table below summarizes the recent examination history including the last two routine exams and other exams during the same time period (excluding TCs and CCs):

Exam #	Exam Type	Field Work Start Date	Action	Violations
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Exam #	Exam Type	Field Work Start Date	Action	Violations
E10010480	RE	04/23/2001	Filed Without Action	
E10990060	RE	05/17/1999	Letter Of Caution	1020 Registration Of Principals

Narrative as Reported on Form U-6 Regarding Disciplinary History:

None

Rationale

The following is the rationale for the exam focus:

Exam Element Group: Administration

- Rationale for Exam Element Group: Other regulatory requirements - Staff will review form filings - to ensure that Form U-4, U-5 and BD are accurately filled out and filed timely.

Exam Element Group: Registration and Education

- Rationale for Exam Element Group: Other regulatory requirements - Staff will review regulatory element of continuing education to ensure the firm did not have any inactive registered persons during the review period.

Exam Element Group: Firm Supervision

- Rationale for Exam Element Group: Other (WSP review for underlying business areas) - The staff will review the supervisory procedures for all business lines on which the 2003 exam staff focused.

Exam Element Group: Internal Controls

- Rationale for Exam Element Group: Mandatory area of review - Pursuant to DSM 02-06, Staff will review internal controls related to internal audit, new products, trading risk controls and independent review.

Exam Element Group: Capital and Credit Regulation

- Rationale for Exam Element Group: Mandatory area of review - Staff will conduct a net capital computation for the period ending July 31, 2003, choosing the most recent net capital computation because the FOCUS report and core examiner did not reveal concerns for any specific time period.

Exam Element Group: Customer Protection

- Rationale for Exam Element Group: Mandatory area of review - The staff will ensure the firm complies with its claimed exemption to SEC Rule 15c3-3.

Exam Element Group: Financial Controls

- Rationale for Exam Element Group: Mandatory area of review - Pursuant to exam supplement H, the staff will ensure independence of the firm's contracted auditor. The staff will review the firm's AML policies.

Exam Element Group: Broker-Dealer Conduct

- Rationale for Exam Element Group: Mandatory area of review - Staff will review customer grievances to determine if there are any patterns of complaints or arbitrations received. If patterns exist, staff will consider expanding the focus to include other areas.

Exam Element Group: Customer Information and Disclosures

- Rationale for Exam Element Group: Mandatory area of review - Staff will conduct a review of Reg. SP requirements noted as a mandatory area of review.

Exam Element Group: Trade Reporting

- Rationale for Exam Element Group: Other regulatory requirements - The staff will review to ensure compliance with the trade reporting requirements as set forth in MSRB Rule G-14.

Exam Element Group: Offerings

Rationale for Exam Element Group: Other regulatory requirements - The staff will substantiate the firm's claim that it has not participated in municipal securities offerings.

Exam Element Group: Broker-Dealer Conduct

- Rationale for Exam Element Group: Other regulatory requirements - The staff will substantiate the firm's claim that it has not participated in municipal securities offerings and ensure the firm has procedures in place in the event it conduct a business requiring compliance with MSRB Rule G-37/38.

Findings

Apparent Violations

None

Other Matters

Form Filings

Question: For applicable new hires, did the firm obtain a copy of Form U-5 or CFTC Form 8-T from the previous employer?

Response: Yes

Records Reviewed:

- Employee records
- Recently Hired Employees (List of)

Exhibits:

- Recently Hired Employees (List of) [3]

Description of Finding and Root Cause Analysis: Staff reviewed employee records of five recently hired registered person as of May 1, 2001. Staff reviewed the files of Personal Privacy and determined Personal Privacy that the firm obtained form U-5 filed by each of the representatives previous employers within (60)days.

Form Filings

Question: Did the firm file (and, as necessary, amend) the Form U-5 with NASD and provide a copy to the registered person within the required time frame?

Response: Yes

Records Reviewed:

- Late Charge Report (05/25/2001 - 08/26/2003)
- Recently Terminated Employees (List of)

- Form U-5

Exhibits:

- Late Charge Report [1]
- Recently Terminated Employees (List of) [2]

Description of Finding and Root Cause Analysis: Staff review of the late charge report did not reveal any late U-5 filings for the period May 25, 2001 through August 26, 2003. In addition the staff conducted a walk through of five recently terminated representatives as of May 25, 2001. Staff reviewed Form U-5 filings for the following representatives and found that in each instance the firm filed the U-5 within 30 days of termination

Personal Privacy

Form Filings

Question: Does the firm keep its Form BD current and accurate?

Response: Yes

Records Reviewed:

- Form BD

Exhibits:

- Form BD [4]

Description of Finding and Root Cause Analysis: Staff review of the firm's Form BD revealed that it appears to be accurate in regards to names, address, ownership percentages, business types, affiliates, memberships,...etc. No problems were noted.

Qualification and Registration

Question: Are associated persons properly qualified and registered, as required, including those registered in a limited capacity?

Response: Yes

Records Reviewed:

- Registered Persons (List from CRD or IRIS)

Sample Name: Qualification and Registration Sample 1

Recommended Selection Method: Random

Selection Method: Random

Sample Type: Detection

Sample Size: 33

Sample Population: 73

Sample Review Period: 08/01/2003 - 08/31/2003

Sample Description/Rationale: All equity traders.

Description of Finding and Root Cause Analysis: Staff sampled thirty-three equity traders of the seventy-three employed at the firm for the period August 1, 2003 through August 31, 2003, as suggested by the sampling guidelines. The review revealed all had proper licenses and registrations. None of the registered representatives receive commissions, as they all receive a salary and a bonus.

Qualification and Registration

Question: Does the firm have two registered principals pursuant to NASD Rule 1021(e) or an exemption from the two-principal requirement?

Response: Yes

Records Reviewed:

- CRD
- IRIS

Description of Finding and Root Cause Analysis: The firm only has one (1) municipal securities principal (Bernard Madoff), however the firm is engaged in a general securities business and pursuant to the MSRB Rule G-3, only needs one qualified Municipal Securities Principal, since there are several other General Securities Principals employed by the firm. In addition, the firm has not conducted a municipal securities business for the previous two (2) exams.

Regulatory Element of Continuing Education

Question: Did the firm permit, directly or indirectly, any inactive registered representatives to either perform or to be compensated for activities, conducted while inactive, that require an active securities registration?

Response: No

Records Reviewed:

- CE Inactive Reports (05/25/2001 - 08/26/2003)

Exhibits:

- CE Inactive Reports [5]

Description of Finding and Root Cause Analysis: Staff review of the CRD CE Inactive reports for the period of 05/25/2001 through 08/26/2003 did not reveal any inactive registered persons.

Correspondence

Question: Does a registered principal review all incoming and outgoing (written and electronic) correspondence with the public relating to the investment banking or securities business, or does the firm provide appropriate training to associated persons?

Response: Yes

Records Reviewed:

- Correspondence (Written and Electronic)
- Written Supervisory Procedures

Sample Name: Correspondence Sample 1

Recommended Selection Method: Systematic

Selection Method: Systematic

Sample Type: Detection

Sample Size: 54

Sample Population: 500

Sample Review Period: 05/25/2001 - 09/12/2003

Sample Description/Rationale: Electronic correspondence

Description of Finding and Root Cause Analysis: Staff review of fifty-four pieces of correspondence as suggested by the sampling guidelines, revealed all correspondence were reviewed by the appropriate personnel. Staff only reviewed electronic correspondence because the firm did not have any written correspondence. Shana Madoff reviews electronic correspondence on a daily basis. Once she reviews the emails she archives them into three different categories spam, business and personal. Ms. Madoff walked the staff through her process of reviewing the correspondence.

Supervision

Question: Has the firm implemented an adequate supervisory system designed to detect and prevent potential rule violations?

Response: Yes

Records Reviewed:

- Written Supervisory Procedures
- Annual Compliance Meeting Attendance List
- Annual Compliance Meeting Outline or Agenda

Sample Name: Supervision Sample 1

Recommended Selection Method: Random

Selection Method: Random

Sample Type: Detection

Sample Size: 35

Sample Population: 80

Sample Review Period: 05/25/2001 - 09/12/2003

Sample Description/Rationale: All Registered Representatives

Description of Finding and Root Cause Analysis: Staff sampled thirty-five registered employees of the firm as recommended by the sampling guidelines. Staff found that all thirty-five registered representatives sampled participated in the compliance meetings. The firm conducts weekly compliance meetings. The meetings are in the form of lectures or mass e-mailings with information described in the firm's yearly written training plan. All information that is sent to the registered representatives is kept in a compliance binder. Additional information is provided to registered personnel during continuing education seminars. Information may be sent out by any of the firm's officers. Shana Madoff, Compliance Counsel, maintains the information along with proof of participation and email receipts.

Internal Communications

Question: Does the firm maintain records of internal communications?

Response: Yes

Records Reviewed:

- Internal Communications

Description of Finding and Root Cause Analysis: Shana Madoff maintains all emails on the firm's server. The emails are archived for each registered person and categorized by spam, business and personal.

Internal Communications

Question: Does the firm have written procedures for reviewing, approving, distributing, and maintaining internal communications?

Response: Yes

Records Reviewed:

- Written Supervisory Procedures

Description of Finding and Root Cause Analysis: Staff review of the firm's written supervisory procedures revealed that the firm has procedures for reviewing, approving, distributing and maintaining internal controls. Staff sat with Shana Madoff as she demonstrated to the staff how she conducts her review of emails on a daily basis. Ms. Madoff spends about three hours of her day reviewing all emails. All emails are automatically sent to Ms. Madoff for her review.

Board of Directors - Senior Management

Question: Does the Board/senior management advise key employees of acceptable business activities and acceptable levels of risk?

Response: N/A

Description of Finding and Root Cause Analysis: Senior management is involved in day to day operations.

Internal Communications

Question: If the firm has written procedures for reviewing, approving, and distributing internal communications, are the procedures followed?

Response: Yes

Records Reviewed:

- Internal Communications
- Written Supervisory Procedures

Description of Finding and Root Cause Analysis: Staff sampled five traders at the firm. Staff reviewed internal communications for the five traders and determined that the procedures for internal communications were being followed.

Board of Directors - Senior Management

Question: Does the Board/senior management advise key employees of acceptable business activities and acceptable levels of risk?

Response: Yes

Description of Finding and Root Cause Analysis: Senior management is involved in day to day operations. Bernard Madoff and Peter Madoff are involved in every aspect of the firm's business. Mr. Madoff verbally informs the firm's employees regarding any issues. Since Mr. Madoff is involved in every aspect of the firm's business, he is aware of all activity/risks, he also ensures that all guidelines are adhered to.

Board of Directors - Senior Management

Question: Are these business activity/risk level guidelines reviewed and updated with appropriate frequency?

Response: Yes

Description of Finding and Root Cause Analysis: Please see the response to the above question, "Does the Board/senior management advise key employees of acceptable business activities and acceptable levels of risk?"

Board of Directors - Senior Management

Question: Does the Board/senior management communicate these guidelines to key employees in a clear and timely manner?

Response: Yes

Description of Finding and Root Cause Analysis: Please see the response to the above question, "Does the Board/senior management advise key employees of acceptable business activities and acceptable levels of risk?"

Board of Directors - Senior Management

Question: Does the Board/senior management monitor to ensure these guidelines are adhered to?

Response: Yes

Description of Finding and Root Cause Analysis: Please see the response to the above question, "Does the Board/senior management advise key employees of acceptable business activities and acceptable levels of risk?"

Credit Risk

Question: Does the firm have adequate written internal control and risk management procedures relating to credit risk, including margin?

Response: N/A

Firm's Response to Finding: The firm does not engage in any sort of credit risk. All transactions are done on an RVP/DVP basis.

Financial Analysis

Question: Does the firm have adequate written internal control and risk management procedures for monitoring trends in the firm's financial status?

Response: Yes

Description of Finding and Root Cause Analysis: The firm's FINOP, on a daily basis reviews and computes the firm's positions, general ledger and net capital computations. The FINOP reports all trends to Bernard Madoff.

Financial Analysis

Question: Is there evidence that the firm implements these procedures?

Response: Yes

Description of Finding and Root Cause Analysis: Staff review of the firm's financials for the previous twelve months did not reveal and financial risk as the firm is extremely well capitalized. The firm's excess net capital has been over \$300 million dollars for each month over the past year. Staff review of the Insite Surveillance and Focus reports did not reveal any exceptions that would put the firm at risk.

Funding and Liquidity

Question: Does the firm have adequate written internal control and risk management procedures relating to funding and liquidity activities, including contingency plans?

Response: Yes

Description of Finding and Root Cause Analysis: The firm does not have any bank loans or lines of credit. The firm is well capitalized, for the period ending July 31, 2003, the firm had an excess net capital of \$365,496,618. The firm is family run and operated, with members of the Madoff family comprising senior management. They are in constant contact with all individuals and departments at the firm.

Funding and Liquidity

Question: Is there evidence that the firm implements these procedures?

Response: Yes

Description of Finding and Root Cause Analysis: It has been determined by the staff that the firm's business has been constant for several years. Staff reviewed Insite Surveillance for the past year and revealed the firm has been consistent.

Internal Audit

Question: Does the staff responsible for conducting internal audits have an appropriate degree of independence from the departments and people they audit?

Response: N/A

Description of Finding and Root Cause Analysis: The firm does not have an Internal Audit Department. The firm has approximately 80 employees. Trading, financials, compliance etc. are reviewed on a daily basis by the appointed supervisory personnel. The firm's business has not changed since its inception, the firm primarily deals with Broker/Dealers and trading for its own account.

Systems and Operations Risk

Question: Does the firm have adequate written internal control and risk management procedures relating to operations, clearance and settlement, and management information systems?

Response: Yes

Description of Finding and Root Cause Analysis: Madoff Securities has a disaster recovery facility, located in Queens, NY. It is fully equipped and staffed. The duplicate office has all of the features of the primary Madoff Securities offices. The facility is tested continuously to ensure that it is prepared to take over the firm's operations if any kind of disaster were to affect the Manhattan office. Members of the firm's staff are rotated through the facility and regularly perform their work from it. Thus, there is always staff on hand in case disaster strikes at the firm's main office.

The disaster recovery facility is on a different electric power grid than the main office, and it is served by a different telephone central office. The facility also has its own electrical generator.

The firm's proprietary trading system ("MISS") provides the four supervisors Andrew Madoff, Mark Madoff, ^{Personal Privacy} [REDACTED] with all types of alerts if certain trading parameters are exceeded. The MISS system shows traders positions at any given time; position limits; reports trades the instant they are executed; and indicates type of order flow execution traffic. The four supervisors review trade parameters on a real time basis of all the traders and systems.

Trading Risk Controls

Question: Does the firm have adequate written internal control and risk management procedures relating to trading activities?

Response: Yes

Description of Finding and Root Cause Analysis: The firm's proprietary trading system ("MISS") provides the four supervisors Andrew Madoff, Mark Madoff, ^{Personal Privacy} [REDACTED] with all types of alerts if certain trading parameters are exceeded. The MISS system shows traders positions at any given time; position limits; reports trades the

instant they are executed; and indicates type of order flow execution traffic. The four supervisors review trade parameters on a real time basis of all the traders and systems.

The firm walked the staff through the process of reviewing the trading systems and traders.

Independent Review

Question: Does senior management's assessment of the firm's major credit risks appear accurate?

Response: Yes

Description of Finding and Root Cause Analysis: Staff review of the firm's financial statements appear to be accurate. Since the firm is family run and Bernard Madoff is involved in every aspect of the business he is aware of any risks if any may be present. Staff review was unable to address any credit risk items. The firm is well capitalized.

Independent Review

Question: Are credit risk items consistent with the authorizing guidelines, and are they adequately managed?

Response: Yes

Description of Finding and Root Cause Analysis: Please see response to above question, (Does senior management's assessment of the firm's major credit risks appear accurate?)

Net Capital Verification

Question: Is the firm's net capital computation correct?

Response: Yes

Records Reviewed:

- Net Capital Computation Workbook (07/01/2003 - 07/31/2003)
- Net Capital Computation Work papers (07/01/2003 - 07/31/2003)

Exhibits:

- Net Capital Computation Workbook [16]

Description of Finding and Root Cause Analysis: Staff computed a net capital computation for the period ending July 31, 2003. As of July 31, 2003, the firm computed a net capital of \$366,496,617.61, with a minimum net capital requirement of \$1,000,000, resulting in excess net capital of \$365,496,617.61.

During the staff's review of the firm's inventory, it was noted that the firm values its inventory using Bloomberg. The firm however uses code UQ which is the official PX NASDAQ close price if available for the securities, if not the primary code of US is used which is a code that reflects a composite closing price. The staff also used Bloomberg however the staff's Bloomberg is defaulted to the US code which gave different values for six of the forty positions sampled. The staff manually changed the code for the position that generated different values and obtained the same value as the firm. Per Bernard Madoff, using the UQ code is the most conservative and appropriate way to mark the positions to market.

As a result of the staff's review, the staff computed a net capital of \$366,507,406.84, with a minimum net capital requirement \$1,000,000, resulting in excess net capital of \$365,507,262.21.

The difference is attributed to the difference of the marking of the positions to market which resulted in a difference of \$10,644.60. Staff tested twenty short positions and twenty long positions all in excess of \$750,000. The total long market value verified by the staff was \$19,840,696 and the total short market value verified by the staff was \$19,214,562.

Staff also reviewed ten options positions which revealed that the firm was taking haircuts consistent with the Rule of Interpretations guide book. In addition, the staff reviewed all the firm's options positions that have not expired. The staff reviewed four call positions which the firm valued at \$6,735 and the staff value at \$7,465. This resulted in a difference of (\$730). In addition the staff reviewed five put positions which the firm valued at \$31,650 and the staff valued at \$31,900, a difference of (\$250). As stated earlier, the firm uses a different code in Bloomberg to obtain its values. The firm takes a more conservative approach to the pricing of the options. The difference is immaterial to the firm's net capital.

Net Capital Verification

Question: Did the firm conduct a securities business while deficient?

Response: N/A

Customer Protection - PAIB

Question: Is the firm's PAIB Reserve Formula computation accurate?

Response: N/A

Exhibits:

- PAIB Reserve Formula Worksheet Schedule [57]

Description of Finding and Root Cause Analysis: The firm does not accept customer funds, all the firm's transactions are done on an RVP/DVP basis.

Customer Protection - PAIB

Question: Are the computations, deposits into and withdrawals from the PAIB Reserve Bank Account made on a timely basis?

Response: N/A

Exhibits:

- Review of Firm's PAIB Reserve Computations [56]

Description of Finding and Root Cause Analysis: Staff reviewed reserve formulas for the period July 1, 2003 through July 31, 2003 and noted that the firm did not have a reserve requirement. The firm maintains \$20,000 on deposit in the reserve bank account. A review of the reserve account revealed that the firm did not have any additions or withdrawals during the above time period. 99% of the firm's customers are broker/dealers.

Protection of Customer Cash

Question: Has a Special Reserve Bank Account been established?

Response: Yes

Description of Finding and Root Cause Analysis: Please see previous question - Customer protection - PAIB. The firm does not receive customer funds.

Monitoring for Anti-Money Laundering Requirements

Question: Does the firm properly report cash transactions exceeding \$10,000, and properly maintain records?

Response: N/A

Exhibits:

- Currency Transactions - Exceptions Schedule [50]

Description of Finding and Root Cause Analysis: The firm does not receive cash of currency.

Monitoring for Anti-Money Laundering Requirements

Question: Does the firm include proper information and keep proper records for transmittal of funds exceeding \$3,000.00?

Response: N/A

Description of Finding and Root Cause Analysis: The firm does not wire funds to customers, as all accounts are RVP/DVP and accounts are flat.

Customer Grievances

Question: Does the firm create and maintain a record of all customer complaints and other related records pursuant to SEC Rule 17a-3, SEC Rule 17a-4, MSRB Rule G-9, and MSRB Rule G-8?

Response: Yes

Records Reviewed:

- Customer complaint file
- 3070 Reports

Exhibits:

- Customer Grievances [36]

Description of Finding and Root Cause Analysis: The firm maintains a customer complaint file, however, it has not received any customer complaints. The staff ran the firm's 3070 filings off the 3070 disclosure site on the NASD's intranet and noted no complaints.

Customer Grievances

Question: Does the firm maintain a record of all arbitration and litigation files pursuant to SEC Rule 17a-3 and SEC Rule 17a-4?

Response: Yes

Records Reviewed:

- Arbitration and litigation files

Exhibits:

- Customer Grievances [36]

Sample Name: Arbitrations and Litigations Sample 1

Recommended Selection Method: Systematic

Selection Method: Systematic

Sample Type: Detection

Sample Size: 2

Sample Population: 2

Sample Review Period: 05/21/2001 - 09/12/2003

Sample Description/Rationale: All arbitrations since last exam.

Description of Finding and Root Cause Analysis: The firm maintains a arbitration/litigation file, which includes two arbitrations against the firm. The one arbitration is an action against the firm by Next-trade to recover payment for order matching services performed by Nexttrades electronic communications network ("ECN"). The arbitration seeks an amount of \$838.76. The second arbitration against the firm seeks payment in the amount of \$3,058.24 for failure to make payment to Domestic Securities for use of its ECN. Both of these arbitrations are de minimis in nature and do not appear to pose a significant adverse impact on the firm's net capital position.

Regulation S-P

Question: Does the firm provide initial, annual, and revised privacy notices as required by Regulation S-P, including the opportunity to "opt out" of certain information sharing arrangements?

Response: N/A

Description of Finding and Root Cause Analysis: The firm does not maintain any retail customers.

Transaction Reporting

Question: Did the firm report trade information in equity securities accurately to the appropriate entity?

Response: N/A

Exhibits:

- Transaction Reporting - Block Exception Report [23]
- Transaction Reporting - Bunched Exception Report [24]
- Transaction Reporting - Equities Exception Schedule [40]
- Transaction Reporting - Equities Fail to Report [41]
- Transaction Reporting - Equities [42]

Description of Finding and Root Cause Analysis: Staff will not review transaction reporting for the firm as market regulation conducted a trading and market making review under examination number MRD200339223 in March 2003. In addition, staff ran a query through the MSRB for any trades during the period May 25, 2001 through September 12, 2003. Jon Nachtsheim of MSRB contacted the staff and stated that Madoff does not have a symbol and has not conducted any transactions for the time period requested.

Filing Requirements

Question: Have all applicable filing requirements been met?

Response: N/A

Exhibits:

- Firm List of Offerings [37]
- Municipal Filing Requirements Exceptions [38]

Description of Finding and Root Cause Analysis: The firm indicated that it did not conduct any underwritings. The staff did not notice any evidence to the contrary.

Municipal Material Events

Question: Does the underwriter ensure that the issuer discloses material events pursuant to SEC Rule 15c2-12?

Response: N/A

Description of Finding and Root Cause Analysis: The firm did not conduct any underwritings, or make any recommendations in municipal securities during the review period.

Political Contributions and Consultants

Question: Is the firm in compliance with the requirements of MSRB Rule G-37?

Response: Yes

Records Reviewed:

- Form G-37/G-38
- General ledger

Description of Finding and Root Cause Analysis: Staff review of the firm's general ledger did not reveal any political contributions. The firm filed a Form G-37x on February 21, 1999.

Political Contributions and Consultants

Question: Is the firm's use of consultants in compliance with the requirements of MSRB Rule G-38?

Response: N/A

Exhibits:

- Disclosure and Reporting Verification for Consultants [59]

Firm's Response to Finding: The firm does not use Municipal Finance Professionals.

Exit Conference

Firm Name: Bernard L. Madoff Investment Securities LLC

Examination Number: E10030067

Date: 10/23/2003

Attendees: Bernard Madoff Personal Privacy

Exit Conference Location: 885 Third Avenue, 18th Floor

New York, NY 10022

Items Noted:

- No Apparent Violations

Appendix A

Exhibit List

Exhibit Number	Exhibit Description
1	Late Charge Report
2	Recently Terminated Employees (List of)
3	Recently Hired Employees (List of)
4	Form BD
5	CE Inactive Reports
6	Anti-Money Laundering Compliance Program
7	Written Supervisory Procedures
8	AML independent testing results and findings
9	Net capital computation
10	Balance sheet and income statement
11	Bank statements
12	FOCUS Report
13	General ledger
14	Reserve Bank Account Letter

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Exhibit Number	Exhibit Description
15	Reserve Bank Account statements
16	Net Capital Computation Workbook
17	NASD Assessment Report
18	Annual audit report
19	Auditor engagement letter or description of the nature and scope of the non-audit services provided by the accountant
20	Operations Internal Control Procedures
21	Independence of Accountant Checklist
22	Supervisory System - Written Supervisory Procedures Checklist
23	Transaction Reporting - Block Exception Report
24	Transaction Reporting - Bunched Exception Report
25	Transaction Reporting - Municipal
26	Transaction Reporting - Municipal Fail to Report
27	Transaction Reporting - Municipal Exception Schedule
28	Transaction Reporting - Corporate Bonds
29	Transaction Reporting - Corporate Bonds Fail to Report
30	Transaction Reporting - Corporate Bonds Exception Schedule
31	Commissions - Equities
32	Commissions - Corporate Debt
33	Commissions - Government
34	Commissions - Municipal
35	Operations Order Ticket Exception
36	Customer Grievances
37	Firm List of Offerings
38	Municipal Filing Requirements Exceptions
39	Unsuitable Recommendations
40	Transaction Reporting - Equities Exception Schedule
41	Transaction Reporting - Equities Fail to Report
42	Transaction Reporting - Equities
43	Markup Markdown - Government
44	Markup Markdown - Corporate Debt
45	Markup Markdown - Municipal
46	Markup Markdown - Equities
47	Sales Practice Potential Exception
48	Foreign Financial Accounts - Exceptions Schedule
49	Transportation of Currency or Monetary Instruments - Exceptions Schedule
50	Currency Transactions - Exceptions Schedule
51	Completion of Customer Sell Orders Exception Schedule
52	Excess and Deficiency Schedule
53	Loans Collateralized By Securities Schedule
54	Review of Firm's Reserve Computation
55	Reserve Formula Worksheet Schedule
56	Review of Firm's PAIB Reserve Computations
57	PAIB Reserve Formula Worksheet Schedule

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Exhibit Number	Exhibit Description
58	Summary Of Subordinated Loan Agreements
59	Disclosure and Reporting Verification for Consultants
60	Net Capital Computation Workpapers

Appendix B

Review Records

Record Title	Time Period From:	Time Period To:
3070 Reports	05/25/2001	09/12/2003
AML independent testing results and findings		
Annual Compliance Meeting Attendance List	2001	2002
Annual Compliance Meeting Outline or Agenda	2001	2002
Annual audit report	2002	2002
Anti-Money Laundering Compliance Program	2002	2003
Arbitration and litigation files	05/25/2001	09/12/2003
Auditor engagement letter or description of the nature and scope of the non-audit services provided by the accountant		
Balance sheet and income statement	07/01/2001	07/31/2003
Bank statements	07/01/2003	07/31/2003
CE Inactive Reports	05/25/2001	08/26/2003
CRD		
Correspondence (Written and Electronic)	05/25/2001	09/12/2003
Customer complaint file	05/25/2001	09/12/2003
Employee records		
FOCUS Report	07/01/2003	07/31/2003
FOCUS Report	12/01/2001	12/31/2001
Form BD		
Form G-37/G-38	2001	2003
Form U-5	2001	2003
General ledger	07/01/2003	07/31/2003
IRIS		
Information Request		
Internal Communications	01/2003	09/30/2003

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Late Charge Report	05/25/2001	08/26/2003
NASD Assessment Report	2002	2002
Net Capital Computation Workbook	07/01/2003	07/31/2003
Net Capital Computation Workpapers	07/01/2003	07/31/2003
Net capital computation	07/01/2003	07/31/2003
Operations Internal Control Procedures		
Recently Hired Employees (List of)	05/25/2001	09/12/2003
Recently Terminated Employees (List of)	05/25/2001	09/12/2003
Registered Persons (List from CRD or IRIS)	05/25/2001	09/12/2003
Reserve Bank Account Letter		
Reserve Bank Account statements	07/01/2003	07/31/2003
Written Supervisory Procedures		

Appendix C

Sampling Guidelines

Qualification and Registration

Qualification and Registration Sample 1 (Detection)

Recommended Selection Method:	Random
Sample Selection Method:	Random
Sample Size:	33
Sample Population:	73
Sample Review Period:	08/01/2003 - 08/31/2003
Sample Description/Rationale:	All equity traders.
Sample Deviations:	0
Sample Projections:	95% confident that violations occur in at least 0% of the population.

Qualification and Registration

Qualification and Registration Sample 2 (Detection)

Recommended Selection Method:	Random
Sample Selection Method:	Random
Sample Size:	33
Sample Population:	73
Sample Review Period:	08/01/2003 - 08/31/2003
Sample Description/Rationale:	All equity traders.
Sample Deviations:	0
Sample Projections:	95% confident that violations occur in at least 0% of the population.

Correspondence

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Correspondence Sample 1 (Detection)

Recommended Selection Method: Systematic
Sample Selection Method: Systematic
Sample Size: 54
Sample Population: 500
Sample Review Period: 05/25/2001 - 09/12/2003
Sample Description/Rationale: Electronic correspondence
Sample Deviations: 0
Sample Projections: 95% confident that violations occur in at least 0% of the population.

Supervision

Supervision Sample 1 (Detection)

Recommended Selection Method: Random
Sample Selection Method: Random
Sample Size: 35
Sample Population: 80
Sample Review Period: 05/25/2001 - 09/12/2003
Sample Description/Rationale: All Registered Representatives
Sample Deviations: 0
Sample Projections: 95% confident that violations occur in at least 0% of the population.

Customer Grievances

Arbitrations and Litigations Sample 1 (Detection)

Recommended Selection Method: Systematic
Sample Selection Method: Systematic
Sample Size: 2
Sample Population: 2
Sample Review Period: 05/21/2001 - 09/12/2003
Sample Description/Rationale: All arbitrations since last exam.

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Sample Deviations: 0

Sample Projections: 95% confident that violations occur in at least 0% of the population.

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