

**RE: Madoff (Certain Hedge Fund Trading Practices, NY-7563-A)**

5/4/2006 11:42:58 AM

**From:** Dale, William C.

**To:** Suh, Simona Personal Privacy

**Cc:** Anthony, Vance H. Personal Privacy; Mayhew, Stewart Personal Privacy

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Simona – Thanks very much for getting back to us. We'll see what we can tell from this.

Bill

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**From:** Suh, Simona

**Sent:** Thursday, May 04, 2006 12:38 PM

**To:** Anthony, Vance H.; Dale, William C.; Mayhew, Stewart

**Cc:** Cheung, Meaghan S.; Lamore, Peter

**Subject:** Madoff (Certain Hedge Fund Trading Practices, NY-7563-A)

Thank you for speaking with us yesterday about Madoff. Unfortunately, we do not have the actual options contracts and thus cannot determine the settlement terms or the options type. (Bernie Madoff has represented to us that he does not have any such contracts.) We will get back to you shortly with a list of dates on which Madoff executed the strategy in 2004-2005.

Attached are several descriptions of the strategy and the trade execution process that Madoff produced to us. Also attached are the two key contracts between Madoff and its institutional customers, the trading authorization directive covering the equities trading and the terms and conditions for the options trading. These two documents are standard for all Madoff customers in the institutional trading program.

Best regards,

Simona

<< File: BLM Split Strike Conversion Description.pdf >> << File: BLM Execution Chart.pdf >> << File: BLM Correlated Portfolio Description and Example.pdf >> << File: BLM AHOE description.pdf >>

<< File: NY-7563 Ex. 2.pdf >>

<< File: NY-7563 Ex. 3.pdf >>

**Witherspoon, David**

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**From:** Mayhew, Stewart  
**Sent:** Wednesday, April 15, 2009 6:07 PM  
**To:** Witherspoon, David  
**Subject:** FW: Madoff (Certain Hedge Fund Trading Practices, NY-7563-A)

**Attachments:** BLM Split Strike Conversion Description.pdf; BLM Execution Chart.pdf; BLM Correlated Portfolio Description and Example.pdf; BLM AHOE description.pdf; NY-7563 Ex. 2.pdf; NY-7563 Ex. 3.pdf

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**Sent:** Thursday, May 04, 2006 12:38 PM  
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Best regards,

Simona



BLM Split Strike Conversion De...



BLM Execution Chart.pdf (84 KB...



BLM Correlated Portfolio Descr...



BLM AHOE description.pdf (211 .



NY-7563 Ex. 2.pdf  
(114 KB)



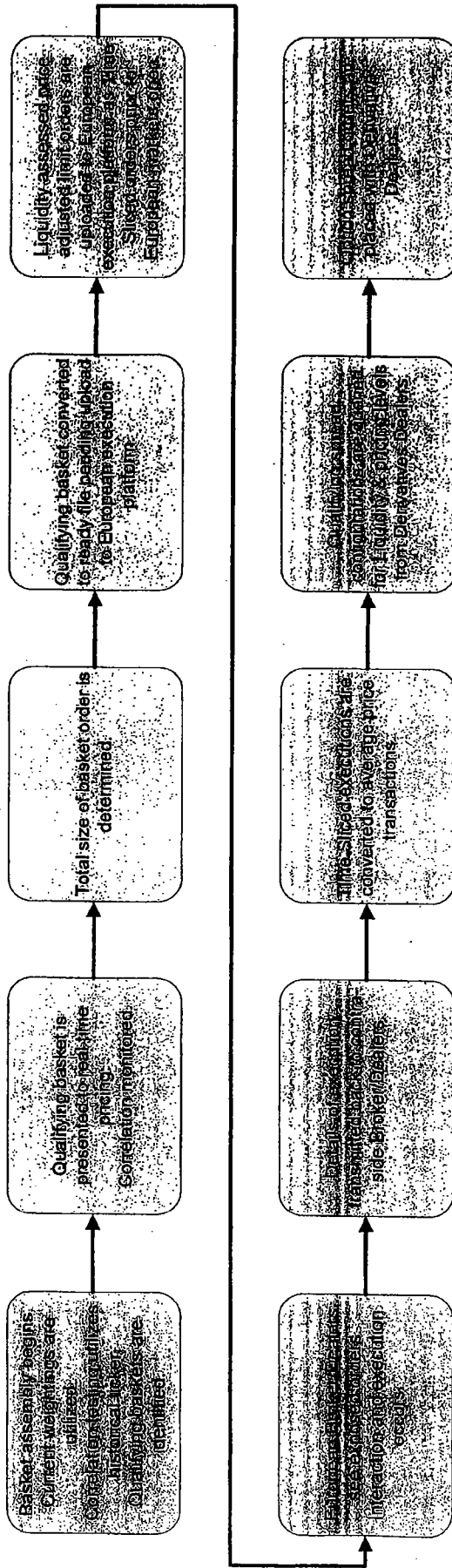
NY-7563 Ex. 3.pdf  
(91 KB)

## Description of Split Strike Forward Conversion

The split strike forward conversion strategy is a variation of a 40 year old market neutral individual equity strategy. It is designed to have a predetermined downside risk whose profit potential comes from the market volatility of that security. Focusing on a group of securities which comprise an index, rather than on an individual security, allows for the strategy to respond to the overall movement of the market.

To effect a split strike conversion, executions will typically occur in 45 to 50 securities, all of which must be resident in the upper tier of the Standard & Poor's (S & P) 100 Index. Each position to be executed is weighted by capitalization, so that the market movement of the collective securities has a correlation to the movement of the S & P 100 Index, which is a capitalization weighted index. Because of that correlation, broad based index options can be used as a hedge to the underlying securities. (see terms and conditions for option hedging transactions)

The specific model used to execute the equity orders of our clients has client defined conditions that must exist at the time of execution. (see trading authorization directive ) These conditions dictate which securities are executed, and the quantity of each order. For example, only securities that are resident in the S & P 100 may be executed. More specifically, these securities must comprise more than 75% of the total capitalization of the S & P 100, which in effect, limits the order to a specific list of securities. Each of these orders are then dollar weighted proportionately to the market capitalization of that particular security within the S & P 100 Index to determine share quantity to be executed.



CONFIDENTIAL  
SYSTEMS DEVELOPMENT DOCUMENT

## CORRELATED PORTFOLIO CONCEPT OUTLINE

The development of Model MA2.06 is driven by the concept that a modified portfolio of securities, all of which are resident within a particular equity index, could be positioned, and the performance of this modified portfolio when measured versus the benchmark index in which they reside would approach Beta equals 1.0.

### DETERMINING MODIFIED PORTFOLIO

The process of defining a modified portfolio, which for illustration we will call a "basket", begins by utilizing data feeds of current capitalization weightings and current issue price data of all components of a subject index (ie. Standard & Poors 100 Index), sorted by percentage weighting in the index and ranked greatest to least by that weighting. This information is captured and will become the "bushel" from which a sub-set basket will be chosen. At this point, the bushel is also tagged with the subject index value.

Reading the bushel to determine what goes into the basket is a "top down" formula that seeks components based on the logic -- equal to or greater than (35) issues and equal to or greater than (75%) total market capitalization weightings.

The issues that result from the above formula and their corresponding price and capitalization weighting are copied from the bushel and formatted as a possible basket. Utilizing copy data as opposed to extracting data from the bushel is necessary due to the fact that one might have to return to the bushel multiple times to accomplish the task.

The basket's component weightings are summed to establish the exact percentage the collective components represent in the original bushel. That sum is expressed as a decimal and held to be used as the constant denominator of an adjusting formula where each issue's individual weighting (also expressed as a decimal) is the numerator. The calculated result per issue becomes the adjusted weighting within the basket of each issue, the sum of which will naturally equal one hundred percent.

Introduced to the process is the value of the subject index. This value is multiplied by each issue's weighting to determine the dollar amount of that issue's representation within the basket. It is at that point that share quantity can be simply established since pricing data is also present.

The basket is then tagged with the benchmark index value (X) drawn from the original bushel tag. The total value of the basket (Y) is also determined. X divided by Y equals the constant divisor that will be used to convert the sum of all the component issues into a theoretical index value. The basket is now formatted to accept historical data.

### BACK-TESTING INITIAL OUTPUT

Historical ticker plant data points are selected by random processing so that issue pricing and benchmark index value are passed through the basket. At each data point, theoretical index is again calculated and tagged to actual index at that data point to be used as the input pairs for correlation co-efficient calculation.

If acceptable results (in excess of .95 beta) are not present (usually a function of too few issues chosen from the bushel), the process reverts back to the point within the model where equal to or greater than (35) issues and equal to or greater than (75%) total market capitalization weightings was applied. This formula is adjusted to: equal to or greater than (number of issues in the previous basket plus one) and equal to or greater than (75%) market capitalization weightings. After formula adjustment which will simply add another issue to the basket's universe thereby reducing nominally each previously captured issues' presence, the basket flows through the process again for divisor calculation and historical correlation testing.

The Model's search utilizing the above loop to find a basket within the original bushel can, and often does produce an output of "no qualifying basket found"

If acceptable results are found, the composite file is generated to a readable format and presented as qualifying basket. At that point (and before order entry is initiated) the qualifying basket's share component data is adjusted by a constant multiplier to reflect order size, and converted back to machine readable format (.csv) to be uploaded for execution.

### MONITORING LIVE BASKET

At the point a basket order is filled or partially filled; the total dollar value of the completed basket is determined and tagged with the current index value. Using

the above stated constant divisor methodology; a theoretical index value is assigned to the completed basket and once again that value, which begins to be calculated at real time pricing intervals of one to two minutes , along with the actual index value at each interval, is used as the input pair of correlation coefficient calculation going forward. This calculation is necessary to determine if positioned components continue to meet the objectives of the modified portfolio's initial guidelines.

If at any point, interval pricing indicates correlation slippage,(in excess of .05 from initial beta) the frequency (of data point intervals) is increased to real time for a limited period (typically less than an hour). If the correlation results continue to exceed stated tolerance, the batch file is uploaded for execution.

Ticker	Name	% Weight in the Index	Shares in the Index	Closing Price
				539.22
GE UN Equity	General Electric Co	6.287	10558.247	34.02
XOM UN Equity	Exxon Mobil Corp	5.622	6505.507	49.37
MSFT UQ Equity	Microsoft Corp	5.334	10872.705	28.03
C UN Equity	Citigroup Inc	4.062	5180.258	44.8
PFE UN Equity	Pfizer Inc	3.946	7550.776	29.86
WMT UN Equity	Wal-Mart Stores Inc	3.93	4242.513	52.92
BAC UN Equity	Bank of America Corp	3.242	4067.613	45.53
AIG UN Equity	American International Group Inc	3.073	2605.398	67.38
JNJ UN Equity	Johnson & Johnson	2.952	2968.107	56.82
IBM UN Equity	International Business Machines Corp	2.522	1675.192	86
JPM UN Equity	JPMorgan Chase & Co	2.463	3562.019	39.51
PG UN Equity	Procter & Gamble Co	2.382	2542.205	53.53
INTC UQ Equity	Intel Corp	2.277	6415	20.28
CSCO UQ Equity	Cisco Systems Inc	2.268	6761.489	19.16
VZ UN Equity	Verizon Communications Inc	2.003	2768.468	41.34
WFC UN Equity	Wells Fargo & Co	1.787	1688.657	60.46
KO UN Equity	Coca-Cola Co/The	1.689	2426.29	39.78
MO UN Equity	Altria Group Inc	1.687	2051.782	46.97
DELL UQ Equity	Dell Inc	1.562	2496.617	35.74
SBC UN Equity	SBC Communications Inc	1.56	3313.643	26.89
HD UN Equity	Home Depot Inc	1.531	2195.447	39.85
PEP UN Equity	PepsiCo Inc	1.432	1694.025	48.29
TWX UN Equity	Time Warner Inc	1.333	4572.458	16.65
AMGN UQ Equity	Amgen Inc	1.234	1266.017	55.67
MRK UN Equity	Merck & Co Inc	1.198	2218.706	30.85
AXP UN Equity	American Express Co	1.17	1267.802	52.71
ORCL UQ Equity	Oracle Corp	1.1	5170.778	12.15
TYC UN Equity	Tyco International Ltd	1.083	2008.791	30.79
MDT UN Equity	Medtronic Inc	1.082	1209.419	51.09
MMM UN Equity	3M Co	1.077	782.703	78.63
VIA/B UN Equity	Viacom Inc	1.045	1734.878	34.43
HPQ UN Equity	Hewlett-Packard Co	0.979	3019.899	18.53
USB UN Equity	US Bancorp	0.96	1879.283	29.17
MWD UN Equity	Morgan Stanley	0.94	1098.427	48.9
DIS UN Equity	Walt Disney Co	0.893	2054.585	24.84
MER UN Equity	Merrill Lynch & Co Inc	0.863	939.461	52.48
UTX UN Equity	United Technologies Corp	0.827	511.631	92.32
GS UN Equity	Goldman Sachs Group Inc	0.805	485.951	94.59
BMJ UN Equity	Bristol-Myers Squibb Co	0.786	1945.181	23.1
DD UN Equity	EI Du Pont de Nemours & Co	0.757	997.899	43.34
BA UN Equity	Boeing Co	0.741	839.434	50.4
DOW UN Equity	Dow Chemical Co/The	0.735	939.432	44.71
BUD UN Equity	Anheuser-Busch Cos Inc	0.708	800.997	50.48
G UN Equity	Gillette Co/The	0.707	1001.845	40.34
SLB UN Equity	Schlumberger Ltd	0.688	590.502	66.57
TXN UN Equity	Texas Instruments Inc	0.645	1731.078	21.3
MCD UN Equity	McDonald's Corp	0.606	1256.244	27.55
ALL UN Equity	Allstate Corp/The	0.58	692.988	47.85
HON UN Equity	Honeywell International Inc	0.532	859.572	35.34



AA UN Equity	Alcoa Inc	0.505	869.836	33.19
EMC UN Equity	EMC Corp/Massachusetts	0.501	2404.672	11.91
NXTL UQ Equity	Nextel Communications Inc	0.483	1113.552	24.78
FDX UN Equity	FedEx Corp	0.457	300.402	86.89
F UN Equity	Ford Motor Co	0.443	1829.787	13.82
EXC UN Equity	Exelon Corp	0.437	660.15	37.84
GM UN Equity	General Motors Corp	0.413	564.748	41.8
CL UN Equity	Colgate-Palmolive Co	0.403	531.058	43.35
SO UN Equity	Southern Co/The	0.397	738.18	30.69
LEH UN Equity	Lehman Brothers Holdings Inc	0.387	271.335	81.41
GD UN Equity	General Dynamics Corp	0.355	199.92	101.4
IP UN Equity	International Paper Co	0.342	486.271	40.24
AVP UN Equity	Avon Products Inc	0.336	472.867	40.55
BAX UN Equity	Baxter International Inc	0.333	614.79	30.95
CCU UN Equity	Clear Channel Communications Inc	0.325	590.027	31.43
HIG UN Equity	Hartford Financial Services Group Inc	0.32	293.189	62.35
HCA UN Equity	HCA Inc	0.316	482.662	37.37
SLE UN Equity	Sara Lee Corp	0.312	793.261	22.49
RTN UN Equity	Raytheon Co	0.287	451.09	36.4
WY UN Equity	Weyerhaeuser Co	0.27	239.454	64.42
HAL UN Equity	Halliburton Co	0.264	441.529	34.1
BNI UN Equity	Burlington Northern Santa Fe Corp	0.261	372.393	40.06
LU UN Equity	Lucent Technologies Inc	0.255	4309.481	3.38
BHI UN Equity	Baker Hughes Inc	0.251	333.75	42.89
ETR UN Equity	Entergy Corp	0.248	226.909	62.56
AEP UN Equity	American Electric Power Co Inc	0.223	395.658	32.26
HNZ UN Equity	HJ Heinz Co	0.218	349.449	35.65
T UN Equity	AT&T Corp	0.217	794.715	15.59
NSC UN Equity	Norfolk Southern Corp	0.213	393.687	30.93
XRX UN Equity	Xerox Corp	0.209	839.107	14.22
LTD UN Equity	Ltd Brands	0.192	472.578	23.18
CPB UN Equity	Campbell Soup Co	0.188	410.488	26.11
EK UN Equity	Eastman Kodak Co	0.17	286.605	33.95
CI UN Equity	Cigna Corp	0.166	137.526	69.14
CSC UN Equity	Computer Sciences Corp	0.161	188.72	48.85
S.UN Equity	Sears Roebuck and Co	0.142	212.02	38.16
ROK UN Equity	Rockwell Automation Inc	0.126	184.33	38.94
MAY UN Equity	May Department Stores Co/The	0.125	291.435	24.5
AES UN Equity	AES Corp/The	0.124	646.415	10.95
MEDI UQ Equity	Medimmune Inc	0.117	249.25	26.73
WMB UN Equity	Williams Cos Inc	0.116	522.373	12.67
BDK UN Equity	Black & Decker Corp	0.108	80.147	77.34
HET UN Equity	Harrah's Entertainment Inc	0.107	111.934	54.63
EP UN Equity	El Paso Corp	0.101	641.007	8.97
NSM UN Equity	National Semiconductor Corp	0.095	358.1	15.23
RSH UN Equity	RadioShack Corp	0.082	159.657	29.36
TOY UN Equity	Toys R US Inc	0.065	213.97	17.29
UIS UN Equity	Unisys Corp	0.064	334.847	10.98
OMX UN Equity	OfficeMax Inc	0.053	88.041	34.55
ATI UN Equity	Allegheny Technologies Inc	0.028	95.283	16.99
DAL UN Equity	Delta Air Lines Inc	0.007	125.607	3.13

B.101204

Symbol	Symbol	Index Weight	Adj. Weight	Index Value	\$ Value	Price	Shares	Constant Multiplier
GE	-N GE-N	6.287	0.073686	539,220	39,732.73	34.02	1,167,923	92.72653
XOM	-N XOM-N	5.622	0.065892	539,220	36,530.05	49.37	719,669	92.72653
MSFT	-O MSFT-O	5.334	0.062516	539,220	33,709.34	28.03	1,202,638	92.72653
C	-N C-N	4.062	0.047608	539,220	25,671.12	44.80	573,016	92.72653
PFE	-N PFE-N	3.946	0.046248	539,220	24,938.02	29.88	835,165	92.72653
WMT	-N WMT-N	3.930	0.046061	539,220	24,836.91	52.82	469,329	92.72653
BAG	-N BAC-N	3.242	0.037997	539,220	20,488.87	45.53	450,008	92.72653
AIG	-N AIG-N	3.073	0.036017	539,220	19,420.82	67.38	288,228	92.72653
JNJ	-N JNJ-N	2.952	0.034598	539,220	18,656.12	56.82	328,337	92.72653
IBM	-N IBM-N	2.522	0.029559	539,220	15,938.60	86.00	185,333	92.72653
JPM	-N JPM-N	2.463	0.028967	539,220	15,565.73	39.51	393,959	92.72653
PG	-N PG-N	2.382	0.027918	539,220	15,053.82	53.53	281,222	92.72653
INTC	-O INTC-O	2.277	0.026697	539,220	14,390.24	20.28	709,578	92.72653
CSCO	-O CSCO-O	2.268	0.026562	539,220	14,333.36	19.16	748,088	92.72653
VZ	-N VZ-N	2.003	0.023476	539,220	12,668.61	41.34	306,207	92.72653
WFC	-N WFC-N	1.787	0.020944	539,220	11,293.52	60.46	186,793	92.72653
KO	-N KO-N	1.689	0.019796	539,220	10,674.18	39.78	268,330	92.72653
MO	-N MO-N	1.687	0.019772	539,220	10,661.54	46.97	226,986	92.72653
DELL	-O DELL-O	1.562	0.018307	539,220	8,871.56	35.74	276,205	92.72653
SBC	-N SBC-N	1.560	0.018284	539,220	9,858.93	26.89	366,639	92.72653
HD	-N HD-N	1.531	0.017944	539,220	9,675.65	39.85	242,802	92.72653
PEP	-N PEP-N	1.482	0.016783	539,220	9,049.99	48.29	187,409	92.72653
TWX	-N TWX-N	1.333	0.015623	539,220	8,424.33	16.65	505,965	92.72653
AMGN	-O AMGN-O	1.234	0.014463	539,220	7,798.66	55.67	140,087	92.72653
MRK	-N MRK-N	1.198	0.014041	539,220	7,571.15	30.85	245,418	92.72653
AXP	-N AXP-N	1.170	0.013713	539,220	7,394.19	52.71	140,281	92.72653
ORCL	-O ORCL-O	1.100	0.012892	539,220	6,951.81	12.15	572,165	92.72653
TYC	-N TYC-N	1.083	0.012693	539,220	6,844.37	30.79	222,292	92.72653
MDT	-N MDT-N	1.082	0.012681	539,220	6,838.05	51.08	133,843	92.72653
MMM	-N MMM-N	1.077	0.012623	539,220	6,806.45	78.63	86,563	92.72653
VIA/B	-N VIA/B-N	1.045	0.012248	539,220	6,604.22	34.43	191,816	92.72653
HPQ	-N HPQ-N	0.978	0.011474	539,220	6,187.11	18.53	333,897	92.72653
USB	-N USB-N	0.960	0.011251	539,220	6,087.03	29.17	207,909	92.72653
MWD	-N MWD-N	0.940	0.011017	539,220	5,940.63	48.90	121,485	92.72653
DIS	-N DIS-N	0.893	0.010466	539,220	5,643.60	24.84	227,198	92.72653
MER	-N MER-N	0.863	0.010115	539,220	5,454.01	52.48	103,925	92.72653
UTX	-N UTX-N	0.827	0.009693	539,220	5,226.49	92.32	56,613	92.72653
GS	-N GS-N	0.805	0.009435	539,220	5,087.46	94.59	53,784	92.72653
BMV	-N BMY-N	0.786	0.009212	539,220	4,967.38	23.10	215,038	92.72653
DD	-N DD-N	0.757	0.008872	539,220	4,784.11	43.34	110,385	92.72653
BA	-N BA-N	0.741	0.008665	539,220	4,662.99	50.40	93,916	92.72653
DOW	-N DOW-N	0.735	0.008614	539,220	4,645.07	44.71	103,893	92.72653
BUD	-N BUD-N	0.708	0.008298	539,220	4,474.44	50.48	88,638	92.72653
G	-N G-N	0.707	0.008286	539,220	4,468.12	40.34	110,761	92.72653
SLB	-N SLB-N	0.688	0.008084	539,220	4,348.04	66.57	65,315	92.72653
		85.322	1.000000		539,220.00			

Size  
50,000,000

Index 539.22  
DIVISOR 1000.00  
Theo Index 539.22

TYPE	SIDE	SYMBOL	SIZE	PRICE	CAPACITY	EXP
ORDER	BUY	GE	108297	34.02	PRINCIPAL	1800
ORDER	BUY	XOM	66732	49.37	PRINCIPAL	1800
ORDER	BUY	MSFT	111516	28.03	PRINCIPAL	1800
ORDER	BUY	C	53133	44.80	PRINCIPAL	1800
ORDER	BUY	PFE	77441	29.88	PRINCIPAL	1800
ORDER	BUY	WMT	43519	52.82	PRINCIPAL	1800
ORDER	BUY	BAC	41727	45.53	PRINCIPAL	1800
ORDER	BUY	AIG	26726	67.38	PRINCIPAL	1800
ORDER	BUY	JNJ	30445	56.82	PRINCIPAL	1800
ORDER	BUY	IBM	17185	86.00	PRINCIPAL	1800
ORDER	BUY	JPM	36531	39.51	PRINCIPAL	1800
ORDER	BUY	PG	26076	53.53	PRINCIPAL	1800
ORDER	BUY	INTC	65796	20.28	PRINCIPAL	1800
ORDER	BUY	CSCO	69367	19.16	PRINCIPAL	1800
ORDER	BUY	VZ	28393	41.34	PRINCIPAL	1800
ORDER	BUY	WFC	17320	60.46	PRINCIPAL	1800
ORDER	BUY	KO	24881	39.78	PRINCIPAL	1800
ORDER	BUY	MO	21047	46.97	PRINCIPAL	1800
ORDER	BUY	DELL	25611	35.74	PRINCIPAL	1800
ORDER	BUY	SBC	33897	26.89	PRINCIPAL	1800
ORDER	BUY	HD	22514	39.85	PRINCIPAL	1800
ORDER	BUY	PEP	17377	48.29	PRINCIPAL	1800
ORDER	BUY	TWX	46916	16.65	PRINCIPAL	1800
ORDER	BUY	AMGN	12989	55.67	PRINCIPAL	1800
ORDER	BUY	MRK	22756	30.85	PRINCIPAL	1800
ORDER	BUY	AXP	13007	52.71	PRINCIPAL	1800
ORDER	BUY	ORCL	53054	12.15	PRINCIPAL	1800
ORDER	BUY	TYC	20612	30.79	PRINCIPAL	1800
ORDER	BUY	MDT	12410	51.08	PRINCIPAL	1800
ORDER	BUY	MMM	8026	78.63	PRINCIPAL	1800
ORDER	BUY	VIA/B	17786	34.43	PRINCIPAL	1800
ORDER	BUY	HPQ	30961	18.53	PRINCIPAL	1800
ORDER	BUY	USB	19286	29.17	PRINCIPAL	1800
ORDER	BUY	MWD	11264	48.90	PRINCIPAL	1800
ORDER	BUY	DIS	21067	24.84	PRINCIPAL	1800
ORDER	BUY	MER	9636	52.48	PRINCIPAL	1800
ORDER	BUY	UTX	5249	92.32	PRINCIPAL	1800
ORDER	BUY	GS	4987	94.59	PRINCIPAL	1800
ORDER	BUY	BMV	19939	23.10	PRINCIPAL	1800
ORDER	BUY	DD	10235	43.34	PRINCIPAL	1800
ORDER	BUY	BA	8615	50.40	PRINCIPAL	1800
ORDER	BUY	DOW	9633	44.71	PRINCIPAL	1800
ORDER	BUY	BUD	8219	50.48	PRINCIPAL	1800
ORDER	BUY	G	10270	40.34	PRINCIPAL	1800
ORDER	BUY	SLB	6566	66.57	PRINCIPAL	1800

Ticker	Name	% Weight	Shares	Closing Price
	in the Index	in the Index		
		539.22		
GE UN Equity	General Electric Co	6.287	10558.247	34.02
XOM UN Equity	Exxon Mobil Corp	5.622	6505.507	49.37
MSFT UQ Equity	Microsoft Corp	5.334	10872.705	28.03
C UN Equity	Citigroup Inc	4.062	5180.258	44.8
PFE UN Equity	Pfizer Inc	3.946	7550.776	29.86
WMT UN Equity	Wal-Mart Stores Inc	3.93	4242.513	52.92
BAC UN Equity	Bank of America Corp	3.242	4067.613	45.53
AIG UN Equity	American International Group Inc	3.073	2605.398	67.38
JNJ UN Equity	Johnson & Johnson	2.952	2968.107	56.82
IBM UN Equity	International Business Machines Corp	2.522	1675.192	86
JPM UN Equity	JPMorgan Chase & Co	2.463	3562.019	39.51
PG UN Equity	Procter & Gamble Co	2.382	2542.205	53.53
INTC UQ Equity	Intel Corp	2.277	6415.20	28
CSCO UQ Equity	Cisco Systems Inc	2.268	6761.489	19.16
VZ UN Equity	Verizon Communications Inc	2.003	2768.468	41.34
WFC UN Equity	Wells Fargo & Co	1.787	1688.657	60.46
KO UN Equity	Coca-Cola Co/The	1.689	2426.29	39.78
MO UN Equity	Altria Group Inc	1.687	2051.782	46.97
DELL UQ Equity	Dell Inc	1.562	2496.617	35.74
SBC UN Equity	SBC Communications Inc	1.56	3313.643	26.89
HD UN Equity	Home Depot Inc	1.531	2195.447	39.85
PEP UN Equity	PepsiCo Inc	1.432	1694.025	48.29
TWX UN Equity	Time Warner Inc	1.333	4572.458	16.65
AMGN UQ Equity	Amgen Inc	1.234	1266.017	55.67
MRK UN Equity	Merck & Co Inc	1.198	2218.706	30.85
AXP UN Equity	American Express Co	1.17	1267.802	52.71
ORCL UQ Equity	Oracle Corp	1.1	5170.778	12.15
TYC UN Equity	Tyco International Ltd	1.083	2008.791	30.79
MDT UN Equity	Medtronic Inc	1.082	1209.419	51.09
MMM UN Equity	3M Co	1.077	782.703	78.63
VIA/B UN Equity	Viacom Inc	1.045	1734.878	34.43
HPQ UN Equity	Hewlett-Packard Co	0.979	3019.899	18.53
USB UN Equity	US Bancorp	0.96	1879.283	29.17
MWD UN Equity	Morgan Stanley	0.94	1098.427	48.9
DIS UN Equity	Walt Disney Co	0.893	2054.585	24.84
MER UN Equity	Merrill Lynch & Co Inc	0.863	939.461	52.48
UTX UN Equity	United Technologies Corp	0.827	511.631	92.32
GS UN Equity	Goldman Sachs Group Inc	0.805	485.951	94.59
BMJ UN Equity	Bristol-Myers Squibb Co	0.786	1945.181	23.1
DD UN Equity	EI Du Pont de Nemours & Co	0.757	997.899	43.34
BA UN Equity	Boeing Co	0.741	839.434	50.4
DOW UN Equity	Dow Chemical Co/The	0.735	939.432	44.71
BUD UN Equity	Anheuser-Busch Cos Inc	0.708	800.997	50.48
G UN Equity	Gillette Co/The	0.707	1001.845	40.34
SLB UN Equity	Schlumberger Ltd	0.688	590.502	66.57
TXN UN Equity	Texas Instruments Inc	0.645	1731.078	21.3
MCD UN Equity	McDonald's Corp	0.606	1256.244	27.55
ALL UN Equity	Allstate Corp/The	0.58	692.988	47.85
HON UN Equity	Honeywell International Inc	0.532	859.572	35.34
AA UN Equity	Alcoa Inc	0.505	869.836	33.19

EMC UN Equity, EMC Corp/Massachusetts, 0.501, 2404.672, 11.91  
NXTL UQ Equity, Nextel Communications Inc, 0.483, 1113.552, 24.78  
FDX UN Equity, FedEx Corp, 0.457, 300.402, 86.89  
F UN Equity, Ford Motor Co, 0.443, 1829.787, 13.82  
EXC UN Equity, Exelon Corp, 0.437, 660.15, 37.84  
GM UN Equity, General Motors Corp, 0.413, 564.748, 41.8  
CL UN Equity, Colgate-Palmolive Co, 0.403, 531.058, 43.35  
SO UN Equity, Southern Co/The, 0.397, 738.18, 30.69  
LEH UN Equity, Lehman Brothers Holdings Inc, 0.387, 271.335, 81.41  
GD UN Equity, General Dynamics Corp, 0.355, 199.92, 101.4  
IP UN Equity, International Paper Co, 0.342, 486.271, 40.24  
AVP UN Equity, Avon Products Inc, 0.336, 472.867, 40.55  
BAX UN Equity, Baxter International Inc, 0.333, 614.79, 30.95  
CCU UN Equity, Clear Channel Communications Inc, 0.325, 590.027, 31.43  
HIG UN Equity, Hartford Financial Services Group Inc, 0.32, 293.189, 62.35  
HCA UN Equity, HCA Inc, 0.316, 482.662, 37.37  
SLE UN Equity, Sara Lee Corp, 0.312, 793.261, 22.49  
RTN UN Equity, Raytheon Co, 0.287, 451.09, 36.4  
WY UN Equity, Weyerhaeuser Co, 0.27, 239.454, 64.42  
HAL UN Equity, Halliburton Co, 0.264, 441.529, 34.1  
BNI UN Equity, Burlington Northern Santa Fe Corp, 0.261, 372.393, 40.06  
LU UN Equity, Lucent Technologies Inc, 0.255, 4309.481, 3.38  
BHI UN Equity, Baker Hughes Inc, 0.251, 333.75, 42.89  
ETR UN Equity, Entergy Corp, 0.248, 226.909, 62.56  
AEP UN Equity, American Electric Power Co Inc, 0.223, 395.658, 32.26  
HNZ UN Equity, HJ Heinz Co, 0.218, 349.449, 35.65  
T UN Equity, AT&T Corp, 0.217, 794.715, 15.59  
NSC UN Equity, Norfolk Southern Corp, 0.213, 393.687, 30.93  
XRX UN Equity, Xerox Corp, 0.209, 839.107, 14.22  
LTD UN Equity, Ltd Brands, 0.192, 472.578, 23.18  
CPB UN Equity, Campbell Soup Co, 0.188, 410.488, 26.11  
EK UN Equity, Eastman Kodak Co, 0.17, 286.605, 33.95  
CI UN Equity, Cigna Corp, 0.166, 137.526, 69.14  
CSC UN Equity, Computer Sciences Corp, 0.161, 188.72, 48.85  
S UN Equity, Sears Roebuck and Co, 0.142, 212.02, 38.16  
ROK UN Equity, Rockwell Automation Inc, 0.126, 184.33, 38.94  
MAY UN Equity, May Department Stores Co/The, 0.125, 291.435, 24.5  
AES UN Equity, AES Corp/The, 0.124, 646.415, 10.95  
MEDI UQ Equity, Medimmune Inc, 0.117, 249.25, 26.73  
WMB UN Equity, Williams Cos Inc, 0.116, 522.373, 12.67  
BDK UN Equity, Black & Decker Corp, 0.108, 80.147, 77.34  
HET UN Equity, Harrah's Entertainment Inc, 0.107, 111.934, 54.63  
EP UN Equity, El Paso Corp, 0.101, 641.007, 8.97  
NSM UN Equity, National Semiconductor Corp, 0.095, 358.1, 15.23  
RSH UN Equity, RadioShack Corp, 0.082, 159.657, 29.36  
TOY UN Equity, Toys R US Inc, 0.065, 213.97, 17.29  
UIS UN Equity, Unisys Corp, 0.064, 334.847, 10.98  
OMX UN Equity, OfficeMax Inc, 0.053, 88.041, 34.55  
ATI UN Equity, Allegheny Technologies Inc, 0.028, 95.283, 16.99  
DAL UN Equity, Delta Air Lines Inc, 0.007, 125.607, 3.13

## **AHOE**

### ***Introduction***

The system provides Madoff the ability to expose orders to authorized foreign dealers acting as POLs when US markets are closed. Authorized dealers can view orders entered by Madoff on behalf of its clients and instantaneously respond to execute those orders.

Authorized dealers will access the system through the internet utilizing a secure socket layer and encryption which will allow the dealers to participate in the system utilizing customized workstation software communicating with the system via the internet. All the various servers supporting the system will be located at Madoff's premises in New York.

In order to facilitate the execution process, the system provides a number of tools the parties can utilize. The system's functionality is based on the Primex system modified to satisfy Madoff's requirements. Specifically, authorized dealers will receive visual alerts denoting that a security in which the dealer has indicated a trading interest has orders available for viewing and execution. The dealer can view the details of the available orders and easily and quickly execute the orders. All executions in the system will be performed in US dollars. Both parties to the execution will receive an execution notification identifying all the terms of the execution.

## **Order Entry**

The Madoff system offers authorized foreign dealers acting as agent or principal, the opportunity to view and execute orders entered by Madoff. Madoff will enter orders into the system utilizing either a batch file containing multiple orders for different securities or will enter each order individually. The order entry process will take place after US markets are closed and be available for execution during non-US trading hours. Regardless of the method utilized to enter the orders, the authorized dealers will receive a notification of the availability of the orders for viewing and execution.

### **Types of Orders**

Madoff will enter into the system priced orders. Madoff may enter orders in round or mixed lots for execution in the system.

All Madoff entered orders will contain the following information:

- a) Buy/Sell indicator
- b) Security identification consisting of the symbol utilized to trade the securities in the US primary market
- c) Share quantity
- d) Price
- e) Exposure time
- f) All or None indication signifying that the order is not eligible for a partial execution.

### **Exposing Orders to the Authorized Dealers**

Orders entered into the Madoff system are exposed to the authorized foreign dealers for a specified time. At order entry, Madoff will enter a maximum exposure time. Any Madoff entered order or portion of an unexecuted order whose exposure time is reached will be returned to Madoff.

Whenever an order is entered and is not filled or expired, the system will display the order on the workstation. When multiple orders in the same stock are active, they appear in the display both individually and in the aggregate, allowing Madoff authorized foreign dealers to view all available interest.

### **The Authorized Foreign Dealers**

The Madoff system allows only authorized foreign dealers to compete for and interact with orders entered by Madoff. The system allows the authorized dealers to interact with the Madoff orders utilizing a variety of tools. Any responses entered by these dealers is not disseminated or available for viewing by any other authorized participating dealers at any time.

### **Execution Control Box**

The Execution Control Box (ECB) is primarily a set of gateways that accept messages either from authorized dealers or from the system and then pass the messages to the appropriate recipient. The ECB routes participants' communications (orders, responses, withdrawals, etc.) to the Madoff system. The ECB is composed of a set of services which include the Middleware Server and the Middleware Gateway. The Middleware Server maintains the list of participants that need to receive each of the message types that the Madoff system sends, and it also forwards participant communications into the system. The Middleware Gateway filters middleware "chatter" (messages that middleware servers send each other about the status of the system) from passing between middleware servers internal to the Madoff system and those located at participant facilities. In addition, the Middleware Gateway provides a level of access control and entitlement that prevents participants from publishing or receiving messages for which they do not have authorization.

### **Business Server**

The Business Server is the application level gateway to the Madoff system. It validates incoming messages from Madoff and authorized dealers, such as orders, and responses and forwards them to the appropriate Execution Server. To perform validations, the Business Server maintains a cached subset of the Madoff administrative data using a high-performance in-memory database. The Business Server also receives administrative messages and queries, and receives acknowledgements and trade executions from the Execution Server.

### **Execution Server**

The Execution Server conducts executions, matching buyers and sellers and executing trades. It has full responsibility for all execution processing, including all executables (orders, responses, and trades) and cancellations/withdrawals.

### **Operations Server**

The Operations Server provides two functions. The first function is to update the database with changes to system data, such as symbols, and firms. The second function is to maintain transactional consistency across the system. If an update affects more than one component or more than one instance of a distributed component, the Operations server ensures they are updated correctly.

### **Operations Controller**

The Operations Controller coordinates all the Madoff system operations. It is responsible for launching the system and particular servers, monitoring status of servers, stopping servers, and handling failover. The Operations Controller allows updates of system operations and configurations. The Operations Controller is also instrumental in assisting in recovery. It provides recovery schemes, automatic restarts, and automatic threshold detection and mitigation, in addition to other functions that do not pertain to recovery and availability such as application-level heartbeats, middleware monitoring, and technical configurations.

As orders or a stream of orders are entered into the system by Madoff, authorized foreign dealers can interact with these orders upon notification from the Madoff system. The Madoff system allows each foreign dealer to create a "watch list" of those securities in which they have an interest. For each order that is entered by Madoff a notification is issued to each foreign dealer that has the order security in their watch list. Once the notification is received by the workstation a scrolling order ticker is activated denoting the details of the order and a button identifying the security symbol is illuminated creating in effect a visual alert of the order existence.

### **Types of Dealer Responses**

As mentioned above, when the system receives an order from Madoff, it will expose the order to all the authorized foreign dealers. The dealers can then interact with the order in the following ways:

- By entering a fixed price response to the total size
- By entering a fixed price response to a part of the total

### **Fixed Price Response to Total**

A Fixed Price Response reflects the absolute price level and the share quantity at which a foreign dealer is willing to execute an order. For example, in response to an order to buy 10,000 shares at \$20.05, a participant can enter a fixed price response to "sell 10,000 at \$20.05."

### **Fixed Price Response to Part of the Total**

A Fixed Price Response reflects the absolute price level and a reduced share quantity at which a foreign dealer is willing to execute an order. For example, in response to an order to buy 10,000 shares at \$20.05, a participant can enter a fixed price response to "sell 2,000 at \$20.05."

When Madoff enters an order into the system, it triggers the start of the execution process for that security. Upon entry of an order, the system will notify the authorized dealers of the order availability and allow them to respond

Once an order has been executed both parties to the transaction will receive an execution notification. The execution notification will identify all the terms of the execution (share quantity, price, etc.). Executions are considered final and can not be canceled or voided by the system.

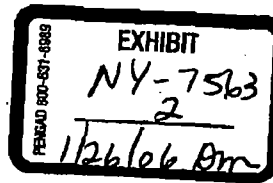
### **System Components**

The following system components are logical entities that may be distributed or combined over multiple pieces of hardware.





**BERNARD L. MADOFF**  
**INVESTMENT SECURITIES LLC**  
885 Third Avenue New York, NY 10022



212 230-2424  
800 334-1343  
Fax 212 486-8178

**TRADING AUTHORIZATION DIRECTIVE**

Issued by: Account Name: American Masters Broad Market Prime Fund L  
Account #: 1-C1260

This Trading Authorization Directive establishes the terms and conditions under which Bernard L. Madoff Investment Securities LLC (BLMIS) will execute the client's orders. The information contained herein pertaining to the order generation and execution parameters of the MA2.06 model is the proprietary intellectual property of BLMIS. The use or reproduction of this information or document for any other purpose is strictly prohibited.

Bernard L. Madoff (individual), acting as agent for the above referenced account, has not been granted, nor shall he exercise, any investment discretion as to the selection of securities or other property purchased or sold by or for the account. Bernard L. Madoff (individual) will determine only the time at which a specified order shall be executed. The purchase or sale of securities is limited as to issue and quantity, and shall include only executions that are consistent with the output results of BLMIS order generation and execution system software model MA2.06.

The core order/execution parameters of model MA2.06 are as follows:

- Orders generated shall be for no less than thirty-five (35) U.S. Equities, all of which must be resident within the highest fifty(50) percentile, based on market capitalization, of the Standard and Poor's 100 Index at the time of order entry.
- The sum total of the combined market capitalization of the equities to be executed must be in excess of seventy-five percent (75%) of the total market capitalization, as measured by Standard and Poor's, of the entire Standard and Poor's 100 Index.
- Each equity security shall be dollar weighted proportionately within the portfolio to the market capitalization of that particular issue in the Standard and Poor's 100 Index at the time of order entry.
- The resulting portfolio, when measured against the Standard and Poor's 100 Index, shall reflect an overall correlation of .95 to 1. These calculations, using a historical price data feed shall include a minimum of 200 data points that occur within a period of not less than twenty (20) trading days within the trailing thirty (30) day period.
- The portfolio, once executed, will be monitored for correlation variance using time interval pricing feeds. Random time intervals not to exceed 120 seconds shall be

Affiliated with:  
Madoff Securities International Limited

used as pricing data points for correlation variance calculations. The acceptable variance from the benchmark correlation shall not exceed five percent (5%).

- If the monitoring method set forth above indicates a condition where the variance has exceeded a 5 percent (5%) tolerance, price data point feeds will be advanced to real time (overriding time interval pricing) for a period not greater than 3000 seconds. If the correlation variance still exceeds stated tolerance, the model's predetermined orders to reverse positions will be exposed.

The dollar amount of the total order(s) to be calculated by the order generation system (as predefined by each client) and the resultant prorata allocation of executions, if necessary, are predicated on the total dollar amount of order(s) from all clients at the time the system model defines the necessary parameters are in place to attempt implementation of the strategy.

Transactions executed for the account will be average price, riskless principal transactions. A commission equivalent of four cents (\$.04) per share will be charged on transactions. The commission equivalents stated above will be BLMIS' only compensation. There will be no other fees or expenses incurred by the account.

Agreed to by: \_\_\_\_\_

  
Bernard L. Madoff Investment Securities LLC



**BERNARD L. MADOFF**  
**INVESTMENT SECURITIES LLC**  
 885 Third Avenue New York, NY 10022

EXHIBIT  
 NY-7563  
 3  
 12/26/06 BM

212 230-2424  
 800 334-1343  
 Fax 212 486-8178

**TERMS AND CONDITIONS FOR OPTION HEDGING TRANSACTIONS**

Issued by: Account Name: AMER MASTERS BROAD MKT PRIME  
 Account #: 1C1260

The following instructions establishes the terms and conditions under which Bernard L. Madoff Investment Securities LLC (BLMIS) will effect, as agent, the client's transactions.

Bernard L. Madoff (individual), acting as agent for the above referenced account, has not been granted, nor shall he exercise, any investment discretion as to the selection of securities or other property purchased or sold by or for the account. Bernard L. Madoff (individual) will determine only the price at which, or the time an option contract shall be effected pursuant to the instructions set forth below.

Upon establishment of equity positions for the account, an attempt to establish broad based index option contracts shall be made in accordance with the following conditions:

- The purchase of broad based index put options shall be limited to the S&P 100 Index, as calculated and disseminated by Standard and Poor's Corporation. The size of the contracts shall correspond to the total dollar value of the executed underlying equity positions. The time to expiration of the contract shall not exceed 60 days from the date of the underlying position order. If within the 60 day period there are multiple monthly expirations available, the contract priority shall be based on liquidity.
- Strike price of the put option shall be less (but not greater than 1.5% less) than the value of the S&P 100 Index at the point the equity orders are completed. If within the 1.5% index band, there are multiple strike prices available, the contract priority shall be based on liquidity. The resulting put option contract established shall be long "out of the money."
- The sale of broad based call option contracts shall be limited to the S&P 100 Index, as calculated and disseminated by Standard and Poor's Corporation. The size of contracts shall correspond to the total dollar value of the underlying equity position. The time to expiration of the contract shall not exceed 60 days from the date of the order. If within the 60 day period there are multiple monthly expirations available, the contract priority shall be based on liquidity.
- Strike price of the call option shall be greater (not to exceed 2.0% greater) than the value of the S&P 100 Index at the point the equity orders are completed. If within the 2.0% index band, there are multiple strike prices available, the contract priority shall be based on liquidity. The resulting call option contract established shall be short "out of the money".
- Upon liquidation of equity positions for the account, a corresponding amount of index option contracts shall be unwound.

Option transactions will incur a maximum commission of One dollar (\$1.00) per contract

Agreed to by:   
 Bernard L. Madoff Investment Securities LLC

Affiliated with:  
 Madoff Securities International Limited  
 19 Berkeley Street, Mayfair, London W1X 5AD. Tel 020-7493 6222