The New York Times

NEW YORK, FRIDAY, DECEMBER 12, 2008

U.S. Arrests A Top Trader In Vast Fraud

By DIANA B. HENRIQUES and ZACHERY KOUWE

On Wall Street, his name is legendary. With money he had made as a lifeguard on the beaches of Long Island, he built a trading powerhouse that had prospered for more than four decades. At age 70, he had become an influential spokesman for the traders who are the hidden gears of the marketplace.

But on Thursday morning, this consummate trader, Bernard L. Madoff, was arrested at his Manhattan home by federal agents who accused him of running a multibillion-dollar fraud scheme — perhaps the largest in Wall Street's history.

Regulators have not yet verified the scale of the fraud. But the criminal complaint filed against Mr. Madoff on Thursday in federal court in Manhattan reports that he estimated the losses at $50 billion. "We are alleging a massive fraud — both in terms of scope and duration," said Linda Chatman Thomsen, director of the enforcement division at the Securities and Exchange Commission. "We are moving quickly

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and decisively to stop the fraud and protect remaining assets for investors."

Andrew M. Calamari, an associate director for enforcement in the S.E.C.'s regional office in New York, said the case involved "a stunning fraud that appears to be of epic proportions."

According to his lawyers, Mr. Madoff was released on a $10 million bond. "Bernie Madoff is a longstanding leader in the financial services industry," said Daniel Horwitz, one of his lawyers. "He will fight to get through this unfortunate set of events."

Mr. Madoff's brother and business colleague, Peter Madoff, declined to comment on the case or discuss its implications for the Madoff firm, which at one point was the largest market maker on the electronic Nasdaq market, regularly operating as both a buyer and seller of a host of widely traded securities. The firm employed hundreds of traders.

There was some worry on Wall Street that Mr. Madoff's fall would shake more foundations than his own.

According to the most recent federal filings, Bernard L. Madoff Investment Securities, the firm he founded in 1960, operated more than two dozen funds overseeing $17 billion.

These funds have been widely marketed to wealthy investors, hedge funds and other institutional customers for more than a decade, although an S.E.C. filing in the case said the firm reported having 11 to 23 clients at the beginning of this year.

At the request of the Securities and Exchange Commission, a federal judge appointed a receiver on Thursday evening to secure the Madoff firm's overseas accounts and warned the firm not to move any assets until he had ruled on whether to freeze the assets.

A hearing on that request is scheduled for Friday.

Regulators said they hoped to have a clearer picture of the losses facing investors by that court hearing.

"We have 16 examiners on site all day and through the night poring over the records," said Mr. Calamari of the S.E.C.

The Madoff funds attracted investors with the promise of high returns and low fees. One of Mr. Madoff's more prominent funds, the Fairfield Sentry fund, reported having $7.3 billion in assets in October and claimed to have paid more than 11 percent interest each year through its 15-year track record.

Competing hedge fund managers have wondered privately for years how Mr. Madoff generated such high returns, in bull markets and bear, given the generally low-yielding investment strategies he described to his clients.

"The numbers were too good to be true, for too long," said Girish Reddy, a managing director at Prisma Partners, an investment firm that invests in hedge funds. "And the supporting infrastructure was weak." Mr. Reddy said his firm had looked at the Madoff funds but decided against investing in them because their performance was too consistently positive, even in times when the market was incredibly volatile.

A firm that showed big gains in good times and bad.

But the essential drama is a personal one — one laid out in the dry language of a criminal complaint by Lev L. Dassin, the acting United States attorney in Manhattan, and a regulatory lawsuit filed by the S.E.C. According to those documents, the first alarm bells rang at the firm on Tuesday, when Mr. Madoff told a senior executive he wanted to pay his employees their annual bonuses in December, two months early.

Just days earlier, Mr. Madoff had told another senior executive he was struggling to raise cash to cover about $7 billion in requested withdrawals from his clients, and he had appeared "to have been under great stress in the prior weeks," according to the S.E.C. complaint.

So on Wednesday, the senior executive visited Mr. Madoff's office, maintained on a separate floor with records kept under lock and key, and asked for an explanation.

Instead, Mr. Madoff invited the two executives to his Manhattan apartment that evening. When they joined him there, he told them that his money-management business was "all just one big lie" and "basically, a giant Ponzi scheme."

The senior employees understood him to be saying that he had for years been paying returns to certain investors out of the cash received from other investors.

In that conversation, according to the criminal complaint, Mr. Madoff "stated that he was 'finished,' that he had 'absolutely nothing.'"

By this account, Mr. Madoff told the executives he intended to surrender to the authorities in about a week but first wanted to distribute approximately $200 million to $300 million to "certain selected employees, family and friends."

On Thursday morning, however, he was arrested on a single count of securities fraud, which carries a maximum penalty of 20 years in prison and a maximum fine of $5 million.

According to the S.E.C., Mr. Madoff confessed to an F.B.I. agent that there was "no innocent explanation" for his behavior and he expected to go to jail. He had lost money on his trades, he told the agent, and had "paid investors with money that wasn't there."

Although not a household name, Mr. Madoff's firm has played a significant role in the structure of Wall Street for decades, both in traditional stock trading and in the development of newer electronic networks for trading equities and derivatives.

In building those new trading networks, his firm had formed partnerships with some of the largest brokerage businesses on Wall Street, including Goldman Sachs and Merrill Lynch.

Mr. Madoff founded Bernard L. Madoff Investment Securities in 1960 and liked to tell interviewers about earning his initial stake by working as a lifeguard at city beaches and installing underground sprinkler systems.

By the early 1980s, his firm was one of the largest independent trading operations in the securities industry. The company had around $300 million in assets in 2000 at the height of the Internet bubble and ranked among the top trading and securities firms in the nation.

Mr. Madoff ran the business with several family members, including his brother Peter, his nephew Charles, his niece Shana and his sons Mark and Andrew.

Vikas Bajaj and Gretchen Morgenson contributed reporting.

The New York Times

NEW YORK, SATURDAY, DECEMBER 13, 2008

Look Back at Wall St. Wizard Finds Magic Had Its Skeptics

Questions Swirl in $50 Billion Madoff Fraud Case

By ALEX BERENSON and DIANA B. HENRIQUES

For years, investors, rivals and regulators all wondered how Bernard L. Madoff worked his magic.

But on Friday, less than 24 hours after this prominent Wall Street figure was arrested on charges connected with what authorities portrayed as the biggest Ponzi scheme in financial history, hard questions began to be raised about whether Mr. Madoff acted alone and why his suspected con game was not uncovered sooner.

As investors from Palm Beach to New York to London counted their losses on Friday in what Mr. Madoff himself described as a $50 billion fraud, federal authorities took control of what remained of his firm and began to pore over its books.

But some investors said they had questioned Mr. Madoff's supposed investment prowess years ago, pointing to his unnaturally steady returns, his vague investment strategy and the obscure accounting firm that audited his books.

Despite these and other red flags, hedge fund companies kept promoting Mr. Madoff's funds to other funds and individuals. More recently, banks like Nomura, the Japanese firm, began soliciting investors for Mr. Madoff internationally. The Securities and Exchange Commission, which investigated Mr. Madoff in 1992 but cleared him of wrongdoing, appears to have been completely surprised by the charges of fraud.

Now thousands, possibly tens of thousands, of investors confront losses that range from serious to devastating. Some families said on Friday that they believed they had lost all their savings. A charity in Massachusetts said it had lost essentially its entire endowment and would have to close.

According to an affidavit sworn out by federal agents, Mr. Madoff himself said the fraud had

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totaled approximately $50 billion, a figure that would dwarf any previous financial fraud.

At first, the figure seemed impossibly large. But as the reports of losses mounted on Friday, the $50 billion figure looked increasingly plausible. One hedge fund advisory firm alone, Fairfield Greenwich Group, said on Friday that its clients had invested $7.5 billion with Mr. Madoff.

The collapse of Mr. Madoff's firm is yet another blow in a devastating year for Wall Street and investors. While Mr. Madoff's firm was not a hedge fund, the scope of the fraud is likely to increase pressure on hedge funds to accept greater regulation and transparency and protect their investors.

On Thursday, the Federal Bureau of Investigation and S.E.C. said that Mr. Madoff's firm, Bernard L. Madoff Investment Securities, ran a giant Ponzi scheme, a type of fraud in which earlier investors are paid off with money raised from later victims — until no money can be raised and the scheme collapses.

Most Ponzi schemes collapse relatively quickly, but there is fragmentary evidence that Mr. Madoff's scheme may have lasted for years or even decades. A Boston whistle-blower has claimed that he tried to alert the S.E.C. to the scheme as early as 1999, and the weekly newspaper Barron's raised questions about Mr. Madoff's returns and strategy in 2001, although it did not accuse him of wrongdoing.

Investors may have been duped because Mr. Madoff sent detailed brokerage statements to investors whose money he managed, sometimes reporting hundreds of individual stock trades per month. Investors who asked for their money back could have it returned within days. And while typical Ponzi schemes promise very high returns, Mr. Madoff's promised returns were relatively realistic — about 10 percent a year — though they were unrealistically steady.

Mr. Madoff was not running an actual hedge fund, but instead managing accounts for investors inside his own securities firm. The difference, though seemingly minor, is crucial. Hedge funds typically hold their portfolios at banks and brokerage firms like JPMorgan Chase and Goldman Sachs. Outside auditors can check with those banks and brokerage firms to make sure the funds exist.

Prosecutors estimate $50 billion was taken in a Ponzi scheme.

But because he had his own securities firm, Mr. Madoff kept custody over his clients' accounts and processed all their stock trades himself. His only check appears to have been Friehling & Horowitz, a tiny auditing firm based in New City, N.Y. Wealthy individuals and other money managers entrusted billions of dollars to funds that in turn invested in his firm, based on his reputation and reported returns.

Victims of the scam included gray-haired grandmothers in Florida, investment companies in London, and charities and universities across the United States. The Wilpon family, the main owners of the New York Mets, and Yeshiva University both confirmed that they had invested with Mr. Madoff, and a Jewish charity in Massachusetts said it would lay off its five employees and close after losing nearly all of its $7 million endowment. Other investors included prominent Jewish families in New York and Florida.

On Friday afternoon, investors and lawyers for investors with Mr. Madoff packed Judge Louis L. Stanton's courtroom at federal court in Manhattan, hoping to question lawyers for Mr. Madoff and the S.E.C. But a deputy for Judge Stanton canceled the hearing, leaving investors with few answers. Several investors said they were planning to file lawsuits against the firm in the hope of recovering some money.

Based on the vagueness of the complaints against Mr. Madoff, his confession, as detailed in court filings, seems to have taken the F.B.I. and S.E.C. by surprise. Investigators have not explained when they believe the fraud began, how much money was ultimately lost and whether Mr. Madoff lost investors' money in the markets, spent it, or both. It is not even clear whether Mr. Madoff actually made any of the trades he reported to investors.

The F.B.I. and S.E.C. have also not said whether they believe Mr. Madoff acted alone. According to the authorities, Mr. Madoff told F.B.I. agents that the scheme was his alone. He worked closely with his brother, sons and other family members, many of whom have retained lawyers.

Also likely to face very difficult questions are the hedge funds, investment advisers and banks that raised money for Mr. Madoff. At least some big investment advisers steered clients away from putting money with Mr. Madoff, believing the returns could not be real.

Robert Rosenkranz, principal of Acorn Partners, which helps wealthy clients choose money managers, said the steadiness of the returns that Mr. Madoff re-

Zachery Kouwe and Stephanie Strom contributed reporting.

LOUIS LANZANO/ASSOCIATED PRESS

The lawyers Stephen Weiss, left, of Seeger Weiss, and Brad Friedman, of Milberg, outside federal court in Manhattan on Friday. They are representing dozens of clients of Bernard L. Madoff.

ported did not make sense, and the size of his auditor raised further concerns.

"Our due diligence, which got into both account statements of his customers, and the audited statements of Madoff Securities, which he filed with the S.E.C., made it seem highly likely that the account statements themselves were just pieces of paper that were generated in connection with some sort of fraudulent activity," Mr. Rosenkranz said.

Simon Fludgate, head of operational due diligence for Aksia, another advisory firm that told clients not to invest with Mr. Madoff, said the secrecy of his strategy also raised red flags. And Mr. Madoff's stock holdings, which he disclosed each quarter with the Securities and Exchange Commission, appeared to be too small to support the size of the fund he claimed. Mr. Madoff's promoters sometimes tried to explain the discrepancy by explaining that he sold all his shares at the end of each quarter and put his holdings in cash.

"There were no smoking guns, but too many things that didn't add up," Mr. Fludgate said.

However, the S.E.C. had already investigated Mr. Madoff and two accountants who raised money for him in 1992, believing they might have found a Ponzi scheme. "We went into this thing just thinking it might be a huge catastrophe," an S.E.C. official told The Wall Street Journal in December 1992.

Instead, Mr. Madoff turned out to have delivered the returns that the investment advisers had promised their clients. It is not clear whether the results of the 1992 inquiry discouraged the S.E.C. from examining Mr. Madoff again, even when new red flags surfaced. Lawyers at the S.E.C. did not return calls.

Meanwhile, Fairfield Greenwich Group, whose clients have $7.5 billion invested with the Madoff firm, said it was "shocked and appalled by this news."

"We had no indication that we and many other firms and private investors were the victims of such a highly sophisticated, massive fraudulent scheme."

At the court hearing, an individual investor, who declined to give his name to avoid embarrassment, expressed a similar sentiment.

"Nobody knows where their money is and whether it is protected," the investor said.

"The returns were just amazing and we trusted this guy for decades — if you wanted to take money out, you always got your check in a few days. That's why we were all so stunned."

The New York Times

NEW YORK, MONDAY, DECEMBER 15, 2008

The 17th Floor, Where Wealth Went to Vanish

Fraud Inquiry Centers on a Firm's Sanctum

By DIANA B. HENRIQUES and ALEX BERENSON

The epicenter of what may be the largest Ponzi scheme in history was the 17th floor of the Lipstick Building, an oval red-granite building rising 34 floors above Third Avenue in Midtown Manhattan.

A busy stock-trading operation occupied the 19th floor, and the computers and paperwork of Bernard L. Madoff Investment Securities filled the 18th floor.

But the 17th floor was Bernie Madoff's sanctum, occupied by fewer than two dozen staff members and rarely visited by other employees. It was called the "hedge fund" floor, but federal prosecutors now say the work Mr. Madoff did there was actually a fraud scheme whose losses Mr. Madoff himself estimates at $50 billion.

The tally of reported losses climbed through the weekend to nearly $20 billion, with a giant Spanish bank, Banco Santander, reporting on Sunday that clients of one of its Swiss subsidiaries have lost $3 billion. Some of the biggest losers were members of the Palm Beach Country Club, where many of Mr. Madoff's wealthy clients were recruited. [Page B1.]

The list of prominent fraud victims grew as well. According to a person familiar with the business of the real estate and publishing magnate Mort Zuckerman, he is also on a list of victims that already included the owners of the New York Mets, a former owner of the Philadelphia Eagles and the chairman of GMAC.

And the 17th floor is now an occupied zone, as investigators and forensic auditors try to piece together what Mr. Madoff did with the billions entrusted to him by

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individuals, banks and hedge funds around the world.

So far, only Mr. Madoff, the firm's 70-year-old founder, has been arrested in the scandal. He is free on a $10 million bond and cannot travel far outside the New York area.

According to charges against Mr. Madoff, his firm paid off earlier investors with money from new investors, fitting the classic definition of a Ponzi scheme. It unraveled as markets declined and many investors who lost money elsewhere sought to withdraw money from their investments with Mr. Madoff.

But a question still dominates the investigation: how one person could have pulled off such a far-reaching, long-running fraud, carrying out all the simple practical chores the scheme required, like producing monthly statements, annual tax statements, trade confirmations and bank transfers.

Firms managing money on Mr. Madoff's scale would typically have hundreds of people involved in these administrative tasks. Prosecutors say he claims to have acted entirely alone.

"Our task is to find the records and follow the money," said Alexander Vasilescu, a lawyer in the New York office of the Securities and Exchange Commission. As of Sunday night, he said, investigators could not shed much light on the fraud or its scale. "We do not dispute his number — we just have not calculated how he made it," he said.

Scrutiny is also falling on the many banks and money managers who helped steer clients to Mr. Madoff and now say they are among his victims.

Mr. Madoff was not running an actual hedge fund, but instead managing accounts for investors inside his own securities firm.

While many investors were friends or met Mr. Madoff at country clubs or on charitable boards, even more had entrusted their money to professional advisory firms that, in turn, handed it to Mr. Madoff — for a fee. Investors are now questioning whether these paid advisers were diligent enough in investigating Mr. Madoff to ensure that their money was safe. Where those advisers work for big institutions like Banco Santander, investors will most likely look to them, rather than to the remnants of Mr. Madoff's firm, for restitution.

Santander may face $3.1 billion in losses through its Optimal Investment Services, a Geneva-based fund of hedge funds that is owned by the bank. At the end of 2007, Optimal had 6 billion euros, or $8 billion, under management, according to the bank's annual report — which would mean that its Madoff investments were a substantial part of Optimal's portfolio.

A spokesman for Santander declined to comment on the case.

Other Swiss institutions, including Banque Bénédict Hentsch and Neue Privat Bank, acknowledged being at risk, with Hentsch confirming about $48 million in exposure.

BNP Paribas said it had not invested directly in the Madoff funds but had 350 million euros, or about $500 million, at risk through trades and loans to hedge funds. And the private Swiss bank Reichmuth said it had 385 million Swiss francs, or $327 million, in potential losses. HSBC, one of the world's largest banks, also said it had made loans to institutions that invested in Madoff but did not disclose the size of its potential losses.

Investigators begin to untangle a huge and complex fraud case.

Calls to Mr. Zuckerman and his representatives were not returned on Sunday night.

Losses of this scale simply do not seem to fit into the intimate business that Mr. Madoff operated in New York.By the elevated standards of Wall Street, the Madoff firm did not pay exceptionally well, but it was loyal to employees even in bad times. Mr. Madoff's family filled the senior positions, but his was not the only family at the firm — generations of employees had worked for Madoff and invested their savings there.

Even before Madoff collapsed, some employees were mystified by the 17th floor. In recent regulatory filings, Mr. Madoff claimed to manage $17 billion for clients — a number that would normally occupy far more than the 20 or so people who worked on 17.

One Madoff employee said he and other workers assumed that Mr. Madoff must have a separate office elsewhere to oversee his client accounts.

Nevertheless, Mr. Madoff attracted and held the trust of companies that prided themselves on their diligent investigation of investment managers.

One of them was Walter M. Noel Jr., who struck up a business relationship with Mr. Madoff 20 years ago that helped earn his investment firm, the Fairfield Greenwich Group, millions of dollars in fees. Indeed, over time, one of Fairfield's strongest selling points for its largest fund was its access to Mr. Madoff.

But now, Mr. Noel and Fairfield are the biggest known losers in the scandal, facing potential losses of $7.5 billion, more than half the firm's assets.

Jeffrey Tucker, a Fairfield cofounder and former federal regulator, said in a statement posted on the firm's Web site: "We have worked with Madoff for nearly 20 years, investing alongside our clients. We had no indication that we and many other firms and private investors were the victims of such a highly sophisticated, massive fraudulent scheme."

The huge loss comes at a time when the hedge fund industry has already been wounded by the volatile markets. Several weeks ago, Fairfield had halted investor redemptions at two of its other funds, citing the tough market conditions as dozens of hedge funds have done. The firm reported a drop of $2 billion in assets between September and November.

Fairfield was founded in 1983 by Mr. Noel, the former head of international private banking at Chemical Bank, and Mr. Tucker, a former Securities and Exchange Commission official. It grew sharply over the years, attracting investors in Europe, Latin America and Asia.

Mr. Noel first met Mr. Madoff in the 1980s, and Fairfield's fortunes grew along with the returns Mr. Madoff reported. The two men were very different: Mr. Madoff hailed from eastern Queens and was tied closely to the Jewish community, while Mr. Noel, a native of Tennessee, moved in the Greenwich social scene with his wife, Monica.

"He was a person of superb ethics, and this has to cut him to the quick," said George L. Ball, a former executive at E. F. Hutton and Prudential-Bache Securities who knows Mr. Noel.

Fairfield boasted about its investigative skills. On its Web site, the firm claimed to investigate

Eric Dash, Jennifer 8. Lee, Zachery Kouwe, Michael J. de la Merced and Nelson D. Schwartz contributed reporting.

hedge fund managers for 6 to 12 months before investing. As part of the process, a team of examiners conducted personal background checks, audited brokerage records and trading reports and interviewed hedge fund executives and compliance officials.

In 2001, Mr. Madoff called Fairfield and invited the firm to inspect his books after two news reports questioned the validity of his returns, according to a person close to Fairfield. Outside auditors hired to inspect Mr. Madoff's operations concluded that "everything checked out," this person said.

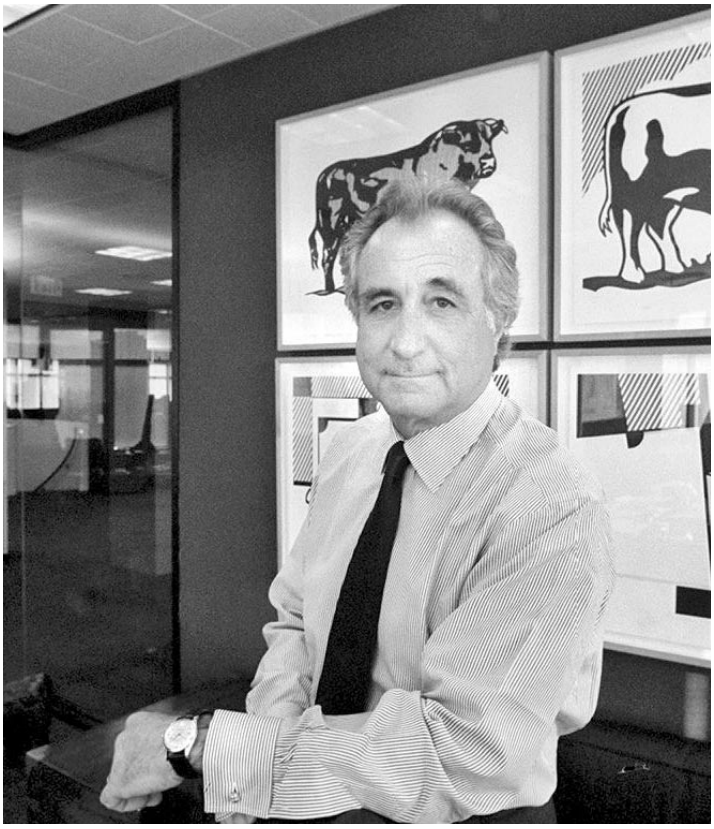
The Fairfield Greenwich Group "performed comprehensive and conscientious due diligence and risk monitoring," Marc Kasowitz, a lawyer for Fairfield, said in a statement. "FGG, like so many other Madoff clients, was a victim of a highly sophisticated massive fraud that escaped the detection of top institutional and private investors, industry organizations, auditors, examiners and regulatory authorities."

Now, Fairfield is seeking to recover what it can from Mr. Madoff.

"It is our intention to aggressively pursue the recovery of all assets related to Bernard L. Madoff Investment Securities," Mr. Tucker said in a statement. "We are also committed to the operation of our continuing funds. We hope to have a better idea of the entire situation as the facts develop."

Working alongside the federal investigators on Madoff's 17th floor, staff workers for Lee S. Richards 3d, the court-appointed receiver for the firm, are trying to determine what parts of the firm can keep operating to preserve assets for investors.

"We don't have anything to report to investors at this time," he said. "We are doing everything we can to protect the assets of the Madoff entities that are subject to the receivership, and to learn what we can about the operations of those entities."



RUBY WASHINGTON/THE NEW YORK TIMES

Prosecutors say Bernard L. Madoff claims that he acted alone in the fraud scheme at his investment firm.

The New York Times

NEW YORK, WEDNESDAY, DECEMBER 17, 2008

PATRICK McMULLAN/PATRICKMcMULLAN.COM

Monica and Walter M. Noel, whose firm lost $7.5 billion.

In Fraud Case, Middlemen In Spotlight

By ERIC KONIGSBERG

As a go-between who shepherded clients and their money to Bernard L. Madoff, Walter M. Noel became so prosperous that he was only too happy to show off his good fortune to the world.

In 2002, Vanity Fair dispatched the photographer Bruce Weber to shoot a lavish spread of Mr. Noel's wife and their five grown daughters at his home in Connecticut ("Golden in Greenwich," read the headline). That was followed, in 2005, by a Town and Country story on the Noel family's tropical retreat in Mustique.

These houses — joining Mr. Noel's addresses in Palm Beach and Southampton and on Park Avenue — were visible evidence of his investment empire, the Fairfield Greenwich Group, which had $14.1 billion in February.

Mr. Noel's firm, including four sons-in-law as partners, now has the distinction of being the biggest known loser in the Madoff scandal, to the tune of $7.5 billion.

For Fairfield Greenwich and a handful of other big feeder funds that were essentially pouring billions of dollars each into Bernard

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L. Madoff Investment Securities, a lucrative business evaporated last week when federal prosecutors said Mr. Madoff had been operating what may have been the biggest Ponzi scheme in history.

Mr. Madoff puts his own fraud at $50 billion and discussed details of it with federal prosecutors in New York on Tuesday, according to people briefed on the meeting.

The Fairfield Greenwich Group charged clients an annual fee of 1 percent of assets invested for providing access to exclusive hedge funds and performing due diligence on them, in addition to a fee of 20 percent on investment gains each year, according to people close to the fund's operations. At that rate, an investment of $7 billion paid Mr. Noel's company $70 million annually, and then $140 million more in a year in which Mr. Madoff reported a 10 percent gain (he steadily reported returns of 10 to 12 percent).

Other middlemen for Mr. Madoff's vehicles — like J. Ezra Merkin and his Ascot Partners fund and Gerald Breslauer, a financial adviser in Los Angeles who invested with Mr. Madoff on behalf of Steven Spielberg and Jeffrey Katzenberg — also collected millions in fees, though they may have had different arrangements.

Mr. Merkin and his Ascot fund took 1.5 percent of assets. On Friday, New York Law School filed a lawsuit in Federal Court in Manhattan against Mr. Merkin and Ascot. The suit claims he abdicated his fiduciary responsibilities and issued false and misleading documents. Mr. Merkin's lawyer said he intended to defend the lawsuit vigorously.

The Tremont Group, a unit of Oppenheimer that is in turn owned by MassMutual, had $3.3 billion with Mr. Madoff, while Optimal Investment Services of Geneva, a unit of Santander of Spain, puts its exposure at $3.1 billion. Other big investors include Kingate Management at $3.5 billion, Union Bancaire Prive of Geneva at $1 billion and Bank Medici of Vienna at $2.1 billion, demonstrating the worldwide reach.

Mr. Noel's largest fund, the $7.3 billion Fairfield Sentry fund, invested exclusively with Mr. Madoff. Mr. Noel has not disclosed how much of that was his own or belonged to family members and how much was his investors'. One of his daughters said, through a spokeswoman at Rubenstein Public Relations, that "a very substantial part of each family member's personal assets was invested with Bernard Madoff alongside those of our investors."

Fairfield Greenwich is based on East 52nd Street, though Mr. Noel worked frequently from Fairfield with his partners, Jeffrey Tucker, formerly of the Securities and Exchange Commission, and Andreas Piedrahita. The 78-year-old Mr. Noel had a master's degree in economics and a law degree — both from Harvard — and had worked for decades in banking before he founded Fairfield Greenwich, which established itself primarily as a marketing entity.

"As it grew beyond, you know, an informal, personal concern where Walter and a couple of people were investing money for his friends, they developed as a marketing force to put Madoff and investors together," said George L. Ball, a former executive at E. F. Hutton and Prudential-Bache Securities who became friends with the Noels decades ago when both lived in Greenwich.

Mr. Noel met Mr. Madoff in the early 1980s and the businesses of both men grew symbiotically. Mr. Noel was as good a salesman as Mr. Madoff could have wished for. Mr. Noel is routinely described as affable, assured, graceful and nonaggressive. "He's a terribly good person, almost in the sense of Jimmy Stewart in 'It's a Wonderful Life' combined with an overtone of Gregory Peck in 'To Kill a Mockingbird,'" Mr. Ball said.

Mr. Noel grew up in Nashville and met his future wife just after law school, when mutual friends set them up on a blind date.

They built a modestly prosperous life in Greenwich, and were perhaps best known among associates for their Christmas cards— "the people with five stunning girls," in the words of a family friend.

"As we know, Walter's success came after several thin years," wrote John J. McCloy, a banker from Greenwich who described himself and his wife, Laura, as the Noels' "best friends for more than 30 years," in May in a letter recommending the Noels to membership in a private club.

In an interview, Mr. McCloy declined to name the club and said that he and his family had not invested with Mr. Madoff.

Mrs. McCloy went on to praise the Noels for their "personal charity."

"Monica is a person, when friends have been down on their luck, who will quietly send a check in the mail, or airline tickets," she said.

The Noel sisters went to prestigious colleges in the United States — Harvard, Yale, Brown, and two at Georgetown — but their spouses are largely from abroad, which helped the company extend its global reach.

Mr. Piedrahita, who is married to Corina Noel, grew up in Bogotá, Colombia, went to Boston University, and made a career in the marketing of hedge fund products before becoming a partner in the firm in 1997. Lisina Noel's husband, Yanko Della Schiava, worked for two textile firms in Italy and "markets F.G.G.'s offshore funds throughout Southern Europe from his base in F.G.G.'s Lugano representative office," according to the company's Web site. Alix Noel's husband, Philip Jamchid Toub, is from Lausanne, Switzerland, and is also involved in marketing the firm's offshore funds in New York. Marisa Noel's husband, Matthew Brown, went to St. Mary's College in San Francisco and also has a marketing position at the firm.

A fifth Noel daughter, Ariane, lives in London and is married to Marco Sodi, an Italian financier.

David Patrick Columbia, the editor of NewYorkSocialDiary.com, said they had burst on the New York-Southampton social scene in the last few years. "They bought a Stanford White house near Lake Agawam a couple of years back," he said. The house has been valued at $9.4 million.

People in the industry continue to question Fairfield's due diligence. Michael Markov, a hedge fund consultant, said that he was hired by a fund two years ago to look into Fairfield Sentry's returns and found that it was "statistically impossible to replicate them," he said.

Mr. Markov said that he found only one hedge fund whose returns correlated to Mr. Madoff's. That was the Bayou fund, which was prosecuted by the government for fraud in 2006.

Reporting was contributed by Alison Leigh Cowan, Alex Berenson, Michael J. de la Merced and Zachery Kouwe.

Madoff's Losers

The list of individuals, banks, charitable foundations and investment firms exposed to losses in Bernard L. Madoff's investment funds continues to grow. Investigators are calling the case the biggest Ponzi scheme ever.

Charitable Foundations	EXPOSURE *In millions*
Carl and Ruth Shapiro Family Foundation	$145
Elie Wiesel Foundation for Humanity	37
Mortimer B. Zuckerman Charitable Remainder Trust	30
Madoff Family Foundation	19
Jewish Federation of Greater Washington	10
Robert I. Lappin Charitable Foundation	7
Jewish Foundation of Greater Los Angeles	6.4
Julian J. Levitt Foundation	6.0
Gift of Life Bone Marrow Foundation	1.8
JEHT Foundation	*Unknown*
Senator Frank R. Lautenberg's charitable foundation	*Unknown*
Wunderkinder	*Unknown*
Chais Family Foundation	*Unknown*

Other	EXPOSURE *In millions*
Yeshiva University	$100-125
Harel Insurance	14.2
Groupama	13.6
Ramaz School	6.0
North Shore-Long Island Jewish Health System	5.7
CNP Assurances	4.1
Congregation Kehilath Jeshurun	3.5
SAR Academy	1.2
Clal Insurance	0.8
Norman Braman	*Unknown*

Note: There may be some overlap in reported losses among firms.

Financial Firms	EXPOSURE *In millions*
Fairfield Greenwich Group	$7,500
Kingate Management	3,500
Tremont Group Holdings	3,300
Banco Santander, Optimal Investment Services	3,100
Bank Medici	2,100
Ascot Partners	1,800
Access International Advisors	1,400
Fortis Bank Netherlands	1,400
Union Bancaire Privee	1,080
HSBC Holdings	1,000
Royal Bank of Scotland	625
Benbassat	935
BNP Paribas	478
BBVA	404
Fix Asset Management	400
Man Group	360
Reichmuth, the Reichmuth Matterhorn fund	330
Nomura Holdings	302
Maxam Capital Management	280
Pioneer Alternative Investments	280
EIM Group	230
Credit Mutuel	124
Dexia	107
Banque Bénédict Hentsch	48
Société Générale	13.8
Neue Privat Bank	5.0
Caisse des Dépôts et Consignations	1.4
Mediobanca	0.7
Mirabaud	*Several million*
Bramdean Alternatives	*9.5% of assets*
Notz Stucki	*Unknown*
Sterling Equities	*Unknown*

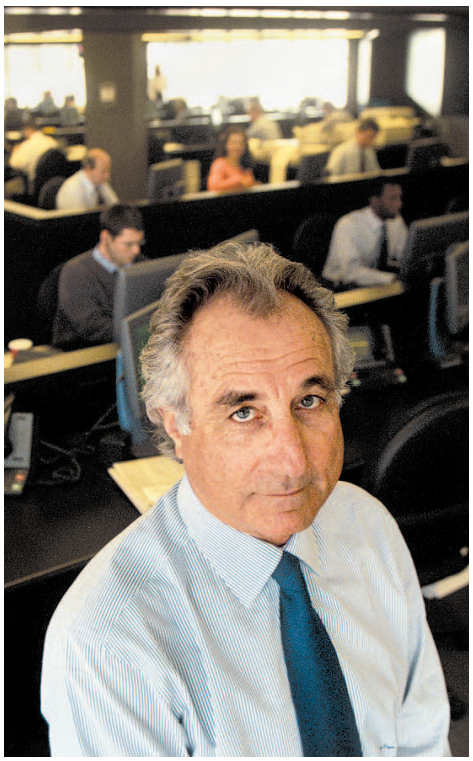
Sources: the companies; Bloomberg; Dow Jones

THE NEW YORK TIMES

The New York Times

NEW YORK, SATURDAY, DECEMBER 20, 2008

TRAPPINGS OF SCANDAL Bernard L. Madoff's Ponzi scheme started small, in New York and in Jewish circles, ballooning to Europe and beyond and helping to finance Mr. Madoff's lavish lifestyle until his arrest on Dec. 11.



RUBY WASHINGTON/THE NEW YORK TIMES

THE MONEY MAN Mr. Madoff at his firm's office.

SHANNON STAPLETON/REUTERS

THE HAMPTONS Mr. Madoff's beachfront home in Montauk, on Long Island.

PATRICK ANDRADE FOR THE NEW YORK TIMES

THE EAST SIDE His 64th Street apartment.

NORA FELLER FOR THE NEW YORK TIMES

THE RIVIERA His villa in France.

Madoff Scheme Kept Rippling Outward, Crossing Borders

Juggernaut Grew Until It Ran Out of Room

By DIANA B. HENRIQUES

By the end, the world itself was too small to support the vast Ponzi scheme constructed by Bernard L. Madoff.

Initially, he tapped local money pulled in from country clubs and charity dinners, where investors sought him out to casually plead with him to manage their savings so they could start reaping the steady, solid returns their envied friends were getting.

Then, he and his promoters set sights on Europe, again framing the investments as memberships in a select club. A Swiss hedge fund manager, Michel Dominicé, still remembers the pitch he got a few years ago from a salesman in Geneva. "He told me the fund was closed, that it was something I couldn't buy," Mr. Dominicé said. "But he told me he might have a way to get me in. It was weird."

Mr. Madoff's agents next cut a cash-gathering swath through the Persian Gulf, then Southeast Asia. Finally, they were hurtling with undignified speed toward China, with invitations to invest that were more desperate, less exclusive. One Beijing businessman who was approached said it seemed the Madoff funds were being pitched "to anyone who would listen."

The juggernaut began to sputter this fall as investors, rattled by the financial crisis and reaching for cash, started taking money out faster than Mr. Madoff could bring fresh cash in the door. He was arrested on Dec. 11 at his Manhattan apartment and charged with securities fraud, turned in the night before by his sons after he told them his entire business was "a giant Ponzi scheme."

The case is still viewed more with mystery than clarity, and Mr. Madoff's version of events can only be drawn from statements attributed to him by federal prosecutors and regulators as he has not commented publicly on the case.

But whatever else Mr. Madoff's game was, it was certainly this: The first worldwide Ponzi scheme — a fraud that lasted longer, reached wider and cut deeper than any similar scheme in history, entirely eclipsing the puny regional ambitions of Charles Ponzi, the Boston swindler who gave his name to the scheme nearly a century ago.

"Absolutely — there has been nothing like this, nothing that we could call truly global," said Mitchell Zuckoff, the author of "Ponzi's Scheme: The True Story of a Financial Legend" and a professor at Boston University. These classic schemes typically prey on local trust, he added. "So this says what we increasingly know to be true about the world: The barriers have come down;

Continued on Page A16

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money knows no borders, no limits."

While many of the known victims of Bernard L. Madoff Investment Securities are prominent Jewish executives and organizations — Jeffrey Katzenberg, the Spitzers, Yeshiva University, the Elie Wiesel Foundation and charities set up by the publisher Mortimer B. Zuckerman and the Hollywood director Steven Spielberg — it now appears that anyone with money was a potential target. Indeed, at one point, the Abu Dhabi Investment Authority, a large sovereign wealth fund in the Middle East, had entrusted some $400 million to Mr. Madoff's firm.

Regulators say Mr. Madoff himself estimated that $50 billion in personal and institutional wealth from around the world was gone. It vanished from the estates of the North Shore of Long Island, from the beachfront suites of Palm Beach, from the exclusive enclaves of Europe. Before it evaporated, it helped finance Mr. Madoff's coddled lifestyle, with a Manhattan apartment, a beachfront mansion in the Hamptons, a small villa overlooking Cap d'Antibes on the French Riviera, a Mayfair office in London and yachts in New York, Florida and the Mediterranean.

Just as the scheme transcended national borders, it left local regulators far behind. Its lies were translated into a half-dozen languages. Its larceny was denominated in a half-dozen currencies. Its warning signals were missed by enforcement agencies around the globe. And its victims are now scattered from Hollywood to Zurich to Abu Dhabi.

Indeed, while the most visible pain may be local — an important charity forced to close, an esteemed university embarrassed, a fabric of community trust shredded — the clearest lesson is universal: When money goes global, fraud does too.

Bernie Who?

In 1960, as Wall Street was just shaking off its postwar lethargy and starting to buzz again, Bernie Madoff (pronounced MAY-doff) set up his small trading firm. His plan was to make a business out of trading lesser-known over-the-counter stocks on the fringes of the traditional stock market. He was just 22, a graduate of Hofstra University on Long Island.

By 1989, Mr. Madoff 's firm was handling more than 5 percent of the trading volume on the august New York Stock Exchange, and Financial World magazine ranked him among the highest-paid people on Wall Street — along with two far more famous financiers, the junk bond king Michael Milken and George Soros, the international investor.

And in 1990, he became the nonexecutive chairman of the Nasdaq market, which at the time was operated as a committee of the National Association of Securities Dealers.

His rise on Wall Street was built on his belief in a visionary notion that seemed bizarre to many at the time: That stocks could be traded by people who never saw each other but were connected only by electronics.

In the mid-1970s, he had spent over $250,000 to upgrade the computer equipment at the Cincinnati Stock Exchange, where he began offering to buy and sell stocks that were listed on the Big Board. The exchange, in effect, was transformed into the first all-electronic computerized stock exchange.

"He was one of the early innovators," said Michael Ocrant, a journalist who has been a longtime skeptic about Mr. Madoff's investing success. "He was known to promote the idea that trading would be going electronic — and that turned out to be true."

He also invested in new electronic trading technology for his firm, making it cheaper for brokerage firms to fill their stock orders. He eventually gained a large amount of business from big firms like A. G. Edwards & Sons, Charles Schwab & Company, Quick & Reilly and Fidelity Brokerage Services. "He was really a low-key guy. No one knew him outside of the sphere of market makers and people in the trading and brokerage business," said Richard B. Niehoff, who was president of the Cincinnati exchange in the mid-1980s.

Mr. Madoff's push to modernize trading did not make him popular with the traditional traders on the floor of the New York Exchange, as more of its orders were sent to his firm — partly because he was faster and cheaper, but also because he paid for those orders.

Mr. Madoff pioneered a controversial practice called "payment for order flow." He would pay big players like Fidelity and Schwab to send their customer orders to his firm instead of to the New York Exchange or other regional exchanges.

The floor traders at those traditional exchanges claimed he was, in essence, paying bribes and that brokers steering business to him were not really getting the best prices for their customers.

Those complaints led to Congressional hearings, but Mr. Madoff made no apologies. He insisted the order-flow payments were necessary to inject greater competition into the marketplace and reduce the near monopoly of the Big Board.

As the debate received more attention, Mr. Madoff became increasingly better known in the financial world. By the end of the technology bubble in 2000, his firm was the largest market maker on the Nasdaq electronic market, and he was a member of the Securities Industry Association, now known as the Securities Industry and Financial Markets Association, Wall Street's principal lobbying arm.

Still, one Wall Street heavyweight who knew him in those days said he remained "a self-effacing kind of guy," more likely to spend time on the Riviera than at parties with other traders.

Local Hero

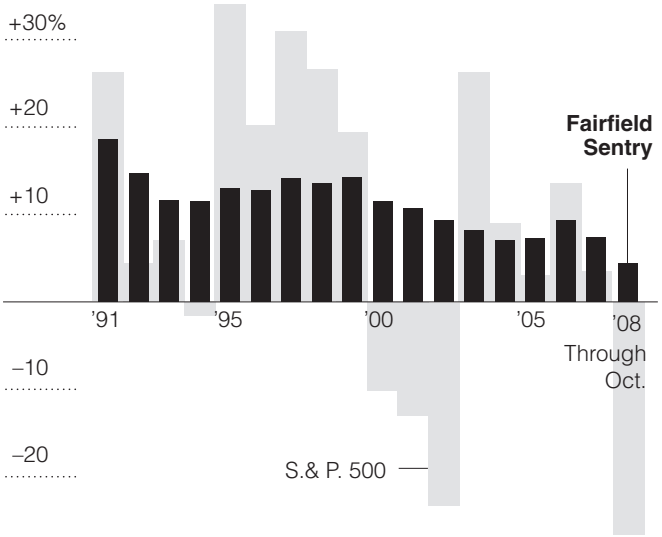
Unlike some prominent Wall Street figures who built their fortunes during the heady 1980s and '90s, Mr. Madoff never became a household name among American investors. But in the clubby world of Jewish philanthropy in the New York area, his increasing wealth and growing reputation among market insiders added polish to his personal prestige.

He became a generous donor, then a courted board member and, finally, the money manager of choice for many prominent regional charities.

This article was reported by Diane B. Henriques, Alex Berenson, Alison Leigh Cowan, Alan Feuer, Zachery Kouwe, Eric Konigsberg, Nelson D. Schwartz, Michael J. de la Merced, Stephanie Strom, Julia Werdigier and Dirk Johnson.

Steady Gains

Fairfield Sentry, a fund invested exclusively with the Madoff firm, delivered consistent annual returns, no matter how the market performed.



Source: Bloomberg

THE NEW YORK TIMES

A spokeswoman for the New York Community Trust, Ani Hurwitz, recalled a Long Island couple who asked the trust in 1994 to invest their proposed $20 million fund with Mr. Madoff. "We have an investment committee that oversees all investments, and they couldn't get anything out of him, no information, nothing," Ms. Hurwitz said. "So we told the donors we wouldn't do it."

But many charities did entrust their money to Mr. Madoff, to their eventual grief. The North Shore-Long Island Jewish Health System, for instance, reported that it had lost $5.7 million on an investment with Mr. Madoff that was made at the donor's behest. (That donor has pledged to cover the loss for the hospital system, its spokesman said.)

Other groups saw the handsome returns on those initial investments and put more of their money into Mr. Madoff's firm, their leaders said. "Look, for years we made money," one said.

Most successful business executives intertwine their personal and professional lives. But those two strands of Mr. Madoff's life were practically inseparable. He sometimes used his 55-foot fishing boat, Bull, as a floating entertainment center for clients. He used his support of organizations like the Public Theater in Manhattan and the Special Olympics to build a network of trust that began to stretch wider and deeper into the Jewish community.

Through friends, the Madoff network reached well beyond New York. At Oak Ridge Country Club, in suburban Hopkins, Minn., known for a prosperous Jewish membership, many who belonged were introduced to the Madoff firm by one of his friends, Mike Engler.

The quiet message became familiar in similar pockets of Jewish wealth and trust: "I know Bernie. I can get you in." Mr. Engler died in 1994, but many Oak Ridge members remained clients of Mr. Madoff. One elderly member, who said he was too embarrassed to be named, said he had lost tens of millions of dollars, and had friends who had been "completely wiped out."

Dozens of now-outraged Madoff investors recall that special lure — the sense that they were being allowed into an inner circle, one that was not available to just anyone. A lawyer would call a client, saying: "I'm setting up a fund for Bernie Madoff. Do you want in?" Or an accountant at a golf club might tell his partner for the day: "I can make an introduction. Let me know." Deals were struck in steakhouses and at charity events, sometimes by Mr. Madoff himself, but with increasing frequency by friends acting on his behalf.

"In a social setting — that's where it always happened," said Jerry Reisman, a lawyer from Garden City, N.Y., who knew Mr. Madoff socially. "Country clubs, golf courses, locker rooms. Recommendations, word of mouth. That's how it was done."

At exclusive retreats like the Palm steakhouse in East Hampton, Mr. Madoff would work the tables or receive friends at his own, building a following that came to include lawyers, doctors, real estate developers and accountants. Tomas Romano, a manager at the Palm, recalled that "people always came to talk with him" at the restaurant. "He was very well known."

At his golf clubs — the Atlantic in Bridgehampton and the Palm Beach Country Club in Florida, for example — he frequently shot in the 80s, but often seemed far more interested in his fellow members, many of whom became investors, than in the game itself.

With his wife, Ruth, a nutritionist and cookbook editor, they were considered affable and charming people. "They stood out," Mr. Reisman said. "Success, philanthropy, esteem — and, if you were lucky enough to be with him as an investor, money."

He added: "That was the most important thing; he was looked on as someone who could make you money. Really make you money."

The Go-Betweens

By the mid-1990s, as Mr. Madoff's wealth and social standing grew, he had moved far beyond the days when golf-club buddies were setting up side deals to invest with him through their lawyers and accountants. Some of the most prominent Jewish figures in high finance and industry began to court Bernie Madoff — and, through them, he reached a new orbit of wealth.

He could not have had a more effective recruiter than Jacob Ezra Merkin, a lion of Wall Street who would be president of the Fifth Avenue Synagogue. Mr. Merkin's father, Hermann, was the founding president of the synagogue and Herman Wouk, the author, wrote its constitution.

As a direct descendant of the founder of modern Orthodox Judaism and a graduate of Columbia's English department and Harvard's law school, Mr. Merkin easily held his own in a congregation that included such luminaries as the author Elie Wiesel, the deal maker Ronald O. Perelman and Ira Rennert, a wealthy financier perhaps best known for building one of the biggest houses and compounds in the Hamptons.

Mr. Merkin was fluent in Jewish and secular studies, as comfortable quoting Psalms as William James. In 1985, after a few years of practicing law at a top-tier firm, now known as Milbank, Tweed, Hadley & McCloy, he started the investment firm that would become Gabriel Capital Group. He contributed to a popular textbook on investing, lived in an art-filled Park Avenue apartment and continued his family's legacy of generosity.

Philanthropies embraced him. He headed the investment committee for the UJA-Federation of New York for 10 years and was on the boards of Yeshiva University, Carnegie Hall and other nonprofit organizations. He became the chairman of GMAC.

Installed in these lofty positions of trust, Ezra Merkin seemed to be a Wall Street wise man who could be trusted completely to manage other people's money. One vehicle through which he did that was a fund called Ascot Partners.

It was one of an unknown number of deals that prominent financial figures set up in recent years and marketed to investors, who thought they were tapping into the acumen of some Wall Street titan, like Mr. Merkin.

As it turned out, their money wound up in the same place — in Bernie Madoff's hands.

These conduits began to steer billions of dollars into the Madoff operation. They operated below the financial radar until Mr. Madoff's scheme collapsed, when investors suddenly got letters from the sponsoring titan disclosing that all or most of their money was probably gone.

Ascot itself attracted $1.8 billion in investments, almost all of which was entrusted to Mr. Madoff. New York Law School put $3 million into Ascot two years ago, and has now initiated a lawsuit in federal court that accuses Mr. Merkin of abdicating his duties to the partnership.

Mortimer Zuckerman, the billionaire owner of The Daily News, rebuked Ascot in a televised interview, saying he had been misled about what Mr. Merkin had done with some $30 million from Mr. Zuckerman's charitable foundation.

Behind a wall of lawyers, Mr. Merkin did not take calls this week. In the "Dear Limited Partner" letter he sent on Dec. 11, he noted that he, too, was one of Mr. Madoff's victims and suffered big losses alongside his investors. He has taken steps to wind down his Ascot, Gabriel and Ariel funds.

Still, some of his clients are stunned, and angry, to learn what Mr. Merkin did with their millions, while collecting an annual management fee of 1.5 percent of the assets for his services.

But before the losses and the outraged cries of betrayal, this was a heady way to steer money into an operation that has now been branded, by its own architect, as a Ponzi scheme. And nothing illustrates what a quantum leap it was for Mr. Madoff than the connections that led Tufts University to entrust him with $20 million in 2005.

Tufts did not actually send a check to Bernard L. Madoff Investment Securities. Rather, it invested in Ascot Partners, Mr. Merkin's partnership. Mr. Merkin had been a major investor in a company whose board included James A. Stern, the chairman of the Tufts investment committee and a principal in a major private investment firm in New York called the Cypress Group.

Behind these veils of paperwork and partnerships, Mr. Madoff's reach now extended into the top tiers of Jewish finance and philanthropy, where he rubbed shoulders with corporate direc-

tors and prominent hedge fund managers. But there were wider worlds to conquer.

The Circle Grows

Walter M. Noel was the courtly public face of the Fairfield Greenwich Group, the investment firm he started in 1983. A native of Tennessee, Mr. Noel had spent time at larger firms, notably at Chemical Bank, where he headed its international private banking practice, before setting out on his own.

From the beginning, the Noel family was built on access to prestigious social circles. Mr. Noel's wife, Monica, was part of the prominent Haegler family of Rio de Janeiro and Zurich, and their daughters would marry into international families that provided additional connections for the firm.

In 1989, Mr. Noel merged his business with a small brokerage firm whose general partner was Jeffrey Tucker, a longtime New Yorker who had a law degree from Brooklyn Law School and a résumé that included eight years with the enforcement division of the Securities and Exchange Commission.

Again and again, this pedigreed experience was emphasized by Fairfield as it built itself into a fund of funds, investing in other hedge funds. It boasted to its prospects that its investigation of investment options was "deeper and broader" than those of most firms because of Mr. Tucker's experience in the regulatory ranks.

Though he is not nearly as prominent as the Noels, who move in the forefront of Connecticut society, Mr. Tucker benefited just as much from Fairfield's success. Indeed, last year he led a coalition of thoroughbred racing interests that sought to bid for New York State's horse-racing franchise.

But it was Mr. Tucker who introduced Fairfield to Mr. Madoff. In the early 1990s, Fairfield began placing money with him, according to George L. Ball, the former president of E. F. Hutton and Prudential-Bache chief executive who knows Mr. Noel socially.

That began a long partnership that helped the Fairfield firm earn enviably steady returns, even in down markets — and that lifted Mr. Madoff into a global orbit, one that soon extended his reach into some of the most fabled banking centers of Europe.

If the wealthy Jewish world he occupied was his launch pad, the wealthy promoters he cultivated at Fairfield Greenwich were his booster rocket.

The Fairfield Sentry fund was one of several so-called feeder funds that became portals through which money from wealthy foreign investors would could capitalize on Mr. Madoff's investment prowess — collecting those exclusive, steady returns that had made him the toast of Palm Beach and the North Shore so many years ago.

The Sentry fund quickly became Fairfield's signature product, and it boasted of stellar returns. In marketing materials, Fairfield trumpeted Sentry's 11 percent annual return over the last 15 years, with only 13 losing months. It was a track record that grew increasingly attractive as markets grew more volatile in recent years.

Though Fairfield Greenwich has its headquarters in New York City and its founder, Mr. Noel, operated from his hometown, Greenwich, Conn., a recent report showed that foreign investors provided 95 percent of its managed assets — with 68 percent in Europe, 6 percent in Asia, and 4 percent in the Middle East.

Friends and associates say that Mr. Noel's sons-in-law spent much of their time marketing the firm's funds in either their home countries or regions where they had their own family connections.

One of his most visible representatives was Andrés Piedrahita, a Colombian who had married Mr. Noel's eldest daughter, Corina, and was eventually named a Fairfield founding partner. Based in Madrid and London, Mr. Piedrahita became one of the firm's most visible representatives in the world of European banking and investment. But his brothers-in-law also had international roots. Yanko Della Schiava, who married Lisina Noel, was the son of the editor of Cosmopolitan in Italy and of the editor of Harper's Bazaar in Italy and France. Philip J. Toub, who married Alix Noel, is the son of a director of the Saronic Shipping Company, in Lausanne, Switzerland.

Matthew Brown, who married Marisa Noel, is the son of a former mayor of San Marino, Calif. All three joined Fairfield, eventually becoming partners in marketing.

Thanks to the efforts of Mr. Piedrahita, Mr. Della Schiava and others, Fairfield reaped many millions of dollars in investor capital from Europe. The firm set up feeder programs with institutions like Banco Santander, Swedish Bank Nordea and Banque Benedict Hentsch. All became conduits that carried fresh money to Mr. Madoff.

Among his new investors were the Mugrabis, extremely wealthy art collectors from Colombia who have lived in New York for more 20 years. It was their longtime friendship with Mr. Piedrahita that led them to invest in the Sentry fund.

"We had very little money with the fund — just under a million dollars — so I am not that upset personally," said Alberto Mugrabi, a son of the family patriarch. "It was a very informal thing. We know Andrés since forever, from Bogotá, he's a great guy, and he says to us, 'This is the Madoff thing, he's the master.'"

He added: "I trusted Andrés. I still trust him."

The World

Mr. Madoff's higher profile in the highly competitive world of hedge fund management intensified the skepticism about his remarkably consistent returns. Rival money managers complained that when they sought to replicate his trading strategy based on the statements the Madoff firm sent its clients, they found it wasn't possible.

There was a scattering of inconclusive regulatory investigations — efforts so unavailing that the chairman of the S.E.C. in Washington has ordered an internal investigation to determine how the agency could have missed so many red flags and ignored so many credible complaints over the years.

But foreign regulators were not any quicker to notice Mr. Madoff's oddities — or the rapidly expanding pool of money entrusted to the various feeder funds he serviced.

There was the small Austrian merchant bank, Bank Medici, which had $2.1 billion invested in funds that ultimately wound up under Mr. Madoff's control. It collected those investments through two main funds, the Herald USA Fund and the smaller Herald Luxemburg Fund, sold to banks, insurance companies and pension funds since 2004.

The funds, which were closed for private investors, were incredibly popular among investors and no questions were ever asked about its constant returns of about 7 percent, said a former employee at the bank who declined to be identified because he is not authorized to talk to the news media.

Bank Medici sold the funds to investors around the world from its offices in New York, Vienna, Gibraltar, Zurich and Milan. About 93 percent of the funds' investors are outside Austria. Just last month, the Herald USA fund won Germany's annual Hedge Fund Awards for "proving consistency in turbulent times."

Peter Scheithauer, chief executive of Bank Medici since September, accepted the award, saying Bank Medici's products "should represent mainly one thing: security and returns in good as well as bad times."

But as he prepared to brief his management board on potential losses connected to the Madoff investments on Friday, he sounded downbeat. "It's a real tragedy," Mr. Scheithauer said. "It's not just us, it's so many other people as well. If only we knew, but he was paying out fine until just recently."

Bank Austria, which is now owned by UniCredit of Italy, owns a stake in Bank Medici and also wound up investing with Mr. Madoff through a range of different funds offered under the name Primeo by its hedge fund unit, Pioneer Alternative Investments.

Mr. Madoff was not a well-known presence on the social circuit in Switzerland. Instead, Swiss money managers

would go to him, visiting his offices in the Lipstick Building in Midtown Manhattan. Seeing Mr. Madoff there was a bit like visiting the Wizard of Oz: despite his unerring success in generating smooth returns, he seemed quite ordinary, lacking the flamboyance of other well-heeled money managers.

"He did not look like a huge spender; seemed like a family man," said one veteran Geneva banker, whose firm had money with Mr. Madoff but insisted on anonymity because of the likelihood of lawsuits from angry clients. "He talked about the markets."

The only thing that struck the Swiss banker as odd was the bull memorabilia strewn about his office. "It seemed strange for a guy to have all these bulls, little sculptures, paintings of bulls," he recalled. "I've seen offices with bears. This was bulls."

But the aura of exclusivity was the constant, he said. "This was the usual spiel: 'It's impossible to get in, but we can get you some if you're nice.' He made it look difficult to get into."

New Frontiers

What began as a quietly coveted investment opportunity for the lucky few in the Jewish country clubs on Long Island became, in its final burst of growth, a thoroughly global financial product whose roots were obscured behind legions of well-dressed, multilingual sales representatives in the financial capitals of Europe.

Indeed, often with the assistance of feeder funds, Mr. Madoff was now in a position to seek and procure money from Arab investors, too. The Abu Dhabi Investment Authority, one of the largest of the world's sovereign wealth funds, with assets estimated earlier this year to be approaching $700 billion, wound up in the same boat as Jewish charities in New York: caught in the collapse of Bernie Madoff.

In early 2005, the investment authority had invested approximately $400 million with Mr. Madoff, by way of the Fairfield Sentry Fund, according to a profile of the firm that it prepared for a prospective buyer in 2007. Fairfield Sentry had more than $7 billion invested with Mr. Madoff and was his largest investor; now, it says, it is his largest victim.

The investment authority, in turn, was one of Fairfield Sentry's largest investors. Even after the investment authority took two significant redemptions from the fund, in April 2005 and 2006, its stake the following year of $132 million made up 2 percent of the fund's assets under management.

The 2007 report lists Philip Jamchid Toub, one of Mr. Noel's sons-in-law, as the firm's "agent" with the Abu Dhabi investors, presumably meaning the person who manages the relationship with the particular clients. Mr. Toub, a Fairfield Greenwich partner, is married to Alix Noel and is the son of Said Toub, a wealthy shipping executive from Switzerland.

Other investors for whom Mr. Toub is listed as the agent include the Safra National Bank of New York and the National Bank of Kuwait.

And Fairfield was finding new fields for Mr. Madoff to cultivate. In 2004, the firm turned its eyes to Asia, forming a partnership with Lion Capital of Singapore, now Lion Global Investors, to create Lion Fairfield Capital Management, a joint venture meant to introduce Asian investors to the firm.

"Many investors believe that Asia holds the best global opportunities for hedge funds over the next two to five years, as compared to the U.S. and Europe," Richard Landsberger, a Fairfield partner and director of Lion Fairfield, told HedgeWorld in 2006.

Yet it appears that Sentry remained Fairfield's chief focus in this new vine-

DON EMMERT/AGENCE FRANCE-PRESSE — GETTY IMAGES

AFTER THE ARREST

Bernard L. Madoff walking to his apartment in Manhattan on Wednesday. He was arrested there on Dec. 11, turned in the night before by his sons after he told them his business was "a giant Ponzi scheme."

yard. Among the institutions that had invested in the fund are Korea Life Insurance, which has about $30 million to $50 million in the fund; a Taiwanese insurer, Cathay Life, with about $12 million; and Samsung Investment and Securities, with about $6.3 million.

As Fairfield moved into Asia, another feeder fund, Stellar US Absolute Return, was incorporated in Singapore in 2006 to funnel investors' capital into Sentry. According to data from Bloomberg News, Stellar borrowed $3 for every dollar of investor money it received, in an effort to extract higher returns.

Last year, Jeffrey Tucker went to Asia to educate potential investors in Beijing and Thailand about hedge funds, seeking to allay their concerns about previous blow-ups in the industry like Long-Term Capital Management, a Connecticut hedge fund that had been rescued under the supervision of the Federal Reserve Bank of New York when its exotic derivative investments brought it to the brink of a costly collapse.

"China is moving slowly as the reformers become familiar with what we do," Mr. Tucker told HedgeWorld in November 2007. "It's the same thing in Thailand. There are misunderstandings about hedge funds."

The Scheme Collapses

But even with all the money pouring in, it was not enough, not in a year in which financial markets were plunging.

Suddenly, people wanted cash — even the people who had trusted their cash for so long to Mr. Madoff. Time was running out for history's first worldwide Ponzi scheme.

But he maintained a brave face at the family firm that he had founded before his sons Mark and Andrew were born, and where they now worked, the firm where his brother Peter had labored at his side for decades, the firm that remained a stock-trading powerhouse on Wall Street.

But that trading business lived on the 18th and 19th floors of the Third Avenue tower, called the Lipstick Building, that was home to Bernard L. Madoff Investment Securities. Mr. Madoff operated his vast but largely unseen "asset management" business from the 17th floor, aided by a small staff that had been with him for years and a computer system separate from the trading business.

His family knew Mr. Madoff had an investment management business, but Mr. Madoff had always kept it separate. Moreover, he explained that he placed his trades through "European counterparties" rather than use the trading desks his sons oversaw.

But Mark and Andrew felt their father had been under increasing tension as the markets grew increasingly difficult this fall.

In early December he remarked to one of them that he was struggling to raise $7 billion to cover redemptions. He seemed tired and drawn, but so was just about everyone else during the turbulent weeks of late November and early December.

Then, early on Dec. 10, he shocked his sons by suggesting that the firm pay out several million dollars in bonuses two months ahead of schedule. When pressed by his sons for a reason, he grew agitated and insisted that they all leave the office and continue the conversation at his apartment on East 64th Street.

It was there, at midmorning, that he told his sons that his business was "a big lie" and, "basically, a giant Ponzi scheme." There was nothing left, he told them — and he fully expected to go to jail.

The questions have piled up since then: Could Mr. Madoff have sustained this worldwide fraud for so long by himself? Why didn't regulators, in Washington and abroad, catch him sooner? And will anything be recovered for investors, some of whom have lost every penny?

But when the news of his arrest began to spread on Dec. 11, the first thought that struck an old friend who had known him as a pioneer on Wall Street, was, "There must be an error. It must be another Bernie Madoff." Then he added, "But then, there is no other Bernie Madoff."

Where Madoff Found Investors for a Wide-Ranging Scheme

Bernard L. Madoff has said the losses in his Ponzi scheme, run from the Lipstick Building (left) on Third Avenue in Midtown Manhattan, might be $50 billion. Here are some of the individuals and groups that invested with him, either directly or through feeder funds.

CONDUITS ▸
These third-party funds funneled money from individuals and groups to Mr. Madoff.

Fairfield Greenwich Group
Exposure: $7.5 billion

Walter M. Noel (right), a founding partner of F.G.C., met Mr. Madoff in the early 1980s.

Jeffrey Tucker, a co-founder of F.G.C. and former S.E.C. lawyer, has said the firm worked with Mr. Madoff for 20 years.

Tremont Group
$3.3 billion

Maxam Capital Management
$280 million

Sandra Manzke founded Tremont in 1985 and now runs Maxam. Tremont reportedly invested with Mr. Madoff in 1997, and was seeking new investments recently.

Ascot Partners
$1.8 billion

Led by J. Ezra Merkin, a hedge fund manager and chairman of GMAC. Mr. Merkin served on the board of several of the charities hurt by Mr. Madoff.

Banco Santander
$3.1 billion

Based in Spain and headed by Emilio Botín (right) Madoff investments were made through one of its hedge funds in Geneva.

Bank Medici
$2.1 billion

Based in Austria; Madoff funds were held by clients throughout Europe and the world.

Gerald Breslauer
Financial adviser in Los Angeles

Noel family
Four of Mr. Noel's sons-in-law are partners in his firm, and they appear to have helped spread Madoff funds around the world. Andrés Piedrahita was based in Madrid and London. Yanko Della Schiava had connections in Italy and France. Phillip J. Toub (below) had connections to Switzerland and oversaw funds in Brazil and the Middle East.

INVESTORS ▸
While some invested through funds, others invested directly.

Korea Life Insurance
$50 million

Abu Dhabi Investment Authority
World's largest sovereign wealth fund

The town of Fairfield, Conn.
Invested pension fund money in 1997 and 1999.
$42 million

Elie Wiesel Foundation for Humanity
$15.2 million
Invested since at least 1998; nearly all of its assets were in Madoff funds.

Tufts University
$20 million

Yeshiva University
$100 million to 125 million
Mr. Madoff was the university's treasurer; Mr. Merkin was in charge of investment funds.

Mortimer B. Zuckerman Charitable Remainder Trust
$30 million

Maimonides School
Up to $5 million

New York Law School
At least $3 million
Filed a lawsuit against Mr. Merkin and Ascot on Tuesday.

Country club members

Palm Beach Country Club
Carl J. Shapiro and his son-in-law recruited old friends; Mr. Madoff joined the club in 1996.

Clubs in Minneapolis and St. Paul *More than $100 million*
An investor raised money in the 1980s and 1990s.

N.Y., N.J., Conn. area *More than $150 million*

Friends

Carl J. Shapiro and family *$145 million for the family's foundation; $400 million personal*
Mr. Shapiro has been a friend of Mr. Madoff for 50 years and reportedly was one of his first investors (Mr. Madoff founded his firm in 1960.)

Fred Wilpon
New York Mets owner; friend for two decades

Picower Foundation
The largest foundation that has announced its closure due to Madoff losses.
$958 million

Clients include **Steven Spielberg** and **Jeffrey Katzenberg**

Source: news reports

For an expanded list of those exposed to losses in Mr. Madoff's investment funds: nytimes.com/business

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The New York Times

NEW YORK, SATURDAY, DECEMBER 13, 2008

Trust Lost, and Everything Else

By DIANA B. HENRIQUES and ALEX BERENSON

The zoning lawyer in Miami trusted him because his father had dealt profitably with him for decades. The officers of a little charity in Massachusetts respected him and relied on his advice.

Wealthy men like J. Ezra Merkin, the chairman of GMAC; Fred Wilpon, the principal owner of the New York Mets; and Norman Braman, who owned the Philadelphia Eagles, simply appreciated the steady returns he produced, regardless of market conditions.

But these clients of Bernard L. Madoff had this in common: They chose him to oversee much of their personal wealth.

And now, they fear, they have lost it.

While Mr. Madoff is facing federal criminal charges, accused by federal prosecutors of operating a vast $50 billion Ponzi scheme, many of his clients are facing an abrupt reversal of fortune that is the stuff of nightmares.

"There are people who were very, very well off a few days ago who are now virtually destitute," said Brad Friedman, a lawyer with the Milberg firm in Manhattan. "They have nothing left but their apartments or homes — which they are going to have to sell to get money to live on."

From New York to Palm Beach, business associates of Mr. Madoff spent Friday assessing the damage, the extent of which will not be known for some time. Many invested with Mr. Madoff through other funds and may not know that their money is at risk.

Emergency meetings were being held at country clubs, schools and charities to assess the potential losses on their investments and to look for options.

There is not much guidance available yet from regulators. On Friday, a federal judge appointed a receiver to oversee the Madoff firm's assets and customer accounts. A Web site is being set up to keep customers informed, but no one is sure yet whether any

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sort of safety net will catch the most vulnerable investors.

For Stephen J. Helfman, a lawyer in Miami whose father had opened an account with Mr. Madoff more than 30 years ago, the news on Thursday came as a hammer blow.

"The name 'Madoff' has overnight gone from being revered to reviled in the Helfman family," Mr. Helfman said on Friday. His grandmother, at 98, relied on her Madoff money to pay for round-the-clock care, he said, and his two children's college funds were wiped out.

"Thirty-six years of loyalty, through two generations, and this is what we get," he said.

The news was equally devastating for the Robert I. Lappin Charitable Foundation in Salem, Mass., which works to reverse the dilution of Jewish identity through intermarriage and assimilation by sending teenagers to Israel and supporting other Jewish education efforts.

The foundation was forced on Friday to dismiss its small staff and shut down its programs to cope with its losses in the Madoff funds, according to Deborah Coltin, its executive director.

"We've canceled everything as of today, everything," she said tearfully.

Ms. Coltin said she did not know how the little foundation came to be so exposed to the Madoff firm. Its most recent tax filings show that it had $7 million at the end of 2006, with $143,344 in stocks and the rest in "government securities."

It reported the sale that year of "Bernie Madoff" securities, but did not explain what those securities were.

Sam Englebardt, a media investor in Los Angeles, said several relatives had entrusted virtually all of their assets to Mr. Madoff — and he understood why.

"It seems like a huge overallocation, I know," Mr. Englebardt said. "But remember, they had started out small and invested over 5 years, 15 years, 30 years — and every year they got a great return, and they could always take money out without ever having a problem."

As that track record lengthened, his relatives gradually entrusted more of their savings to Mr. Madoff, he said. "I suspect that is what has happened across the board," he added. "People came to trust him so much that, eventually, they trusted him with everything."

Such stories were repeated in e-mail messages and telephone calls throughout the day on Friday. A woman in Brooklyn whose father died just weeks ago found that his entire estate and a substantial portion of her stepmother's money was invested with Mr. Madoff. A law school official in Massachusetts fears he has lost millions in the collapse of the Madoff operation.

Some wealthy victims, of course, can afford to seek redress on their own. But for them, litigation seems the only certainty.

Throughout the rumor-fueled hedge fund world on Friday, money managers were comparing notes and assessing losses. By all accounts, they run broad and deep — in the billions.

Mr. Merkin, a prominent philanthropist and the founder of several hedge funds, including one called Ascot Partners, jolted his clients on Thursday with a letter announcing that "substantially all" of that fund's $1.8 billion in assets were invested with Mr. Madoff.

"As one of the largest investors in our fund, I have also suffered major losses from this catastrophe," Mr. Merkin said in the letter. "We have retained counsel to determine what our next steps should be."

Some of Mr. Merkin's investors have also "retained counsel." Harry Susman, a lawyer in the Houston office of Susman Godfrey, said he was talking with several clients about legal options.

"These investors were never aware that all of their money was invested with Madoff," Mr. Susman said. "They are obviously shocked."

Sterling Equities and the Wilpon family acknowledged on Friday that they had money at risk in the Madoff scandal.

"We are shocked by recent events and, like all investors, will continue to monitor the situation," said Richard C. Auletta, a spokesman for Sterling and the Wilpons.

The Mets organization issued a statement saying that the scandal would not derail its new Citi

Reporting was contributed by Stephanie Strom, Julie Creswell, Eric Konigsberg, Zachery Kouwe and Charles Bagli.

DIANE BONDAREFF/ASSOCIATED PRESS

Investors in the lobby of Bernard L. Madoff Investment Securities in Manhattan.

Field stadium project in Queens or "affect the day-to-day operations and long-term plans of the Mets organization."

A lawyer for Norman Braman of Miami, a wealthy retired retailer and the former owner of the Philadelphia Eagles football team, confirmed that Mr. Braman, too, had money locked up and perhaps lost in the Madoff mess.

And Bramdean Alternatives, a London asset manager run by Nicola Horlick, saw its share price plummet nearly 36 percent on Friday after it announced that nearly 10 percent of its holdings were caught in the Madoff scandal.

Mr. Madoff has resigned from his positions at Yeshiva University, where he was treasurer for the university's board and deeply involved in the business school.

"Our lawyers and accountants are investigating all aspects of his relationship to Yeshiva University," said Hedy Shulman, a spokeswoman for the university.

The most recent tax filings for the university show that its endowment fund, a separate charity, was heavily invested in hedge funds and other nontraditional alternatives at the end of its fiscal year in 2006.

The school paper, the Yeshiva Commentator, recently reported that its endowment's value had dropped to $1.4 billion from $1.8 billion — before the scandal broke.