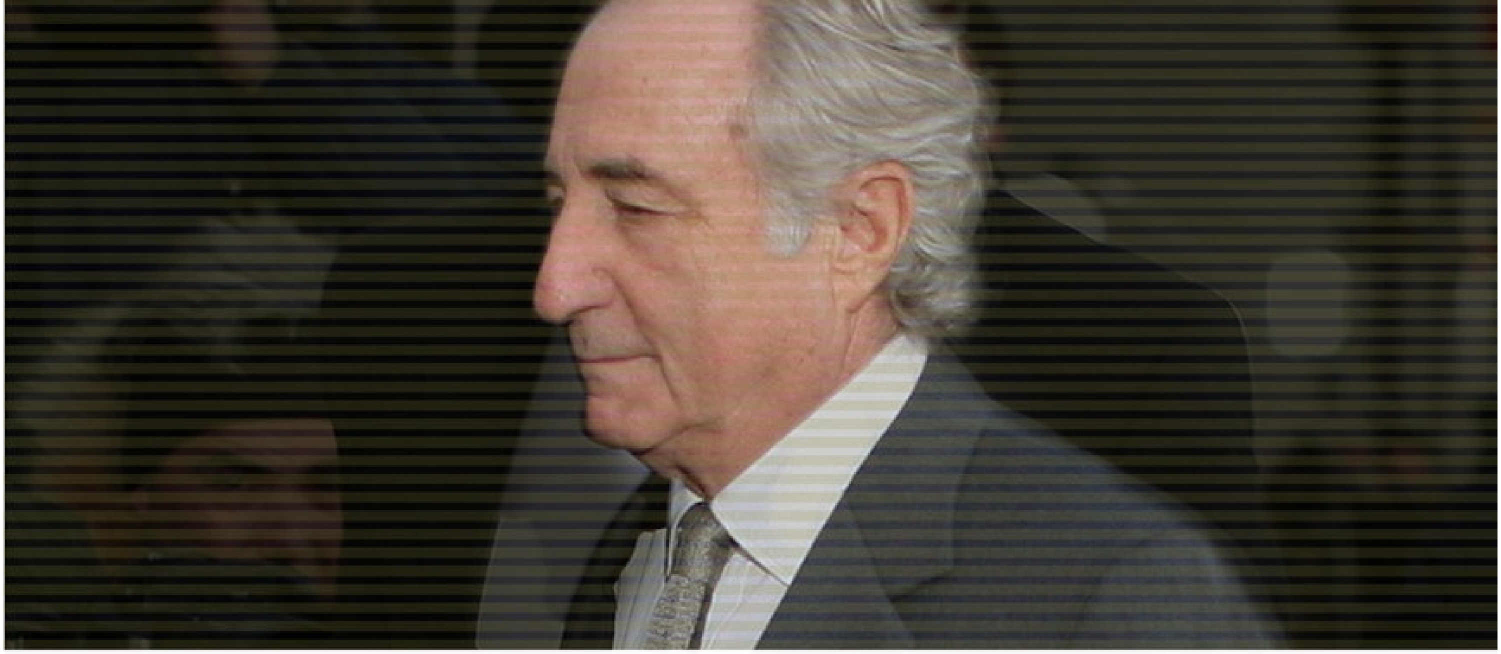

COLLECTIONS

Bernard L. Madoff

Master of the Ponzi Scheme

FROM THE NEW YORK TIMES ARCHIVES

BERNARD L. MADOFF: MASTER OF THE PONZI SCHEME

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Prominent Trader Accused of Defrauding Clients

By DIANA B. HENRIQUES and ZACHERY ROUWE

December 12, 2008

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 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.

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.

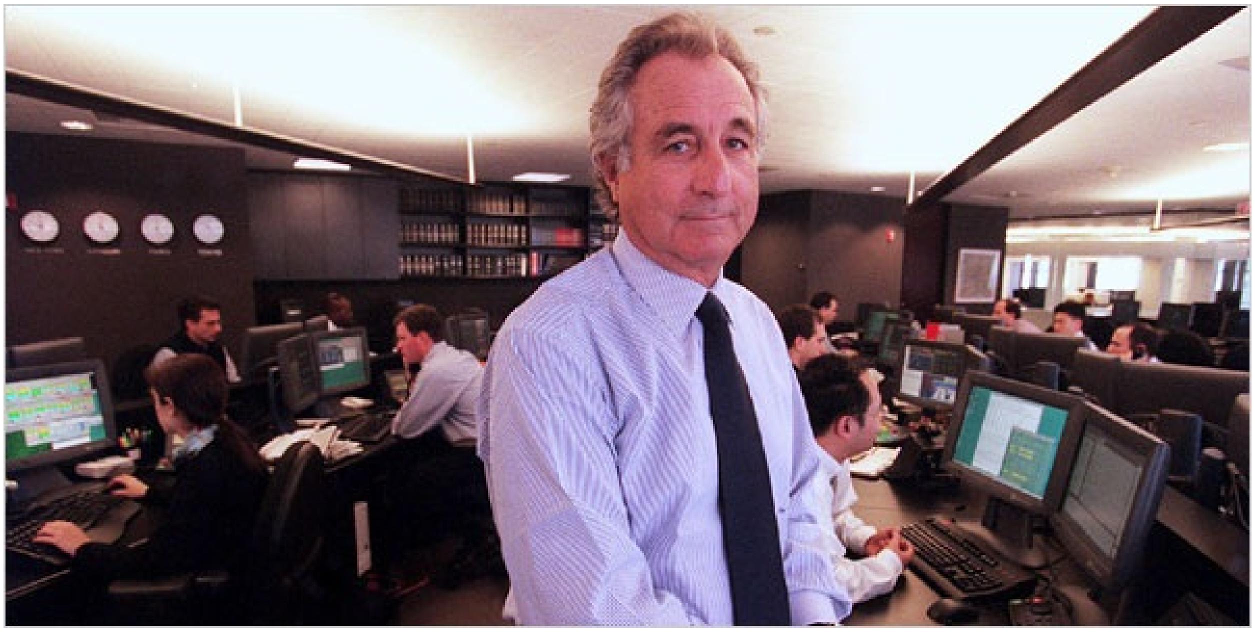
Mr. Madoff founded Bernard L. Madoff Investment Securities in 1960 and liked to tell interviewers about earning his initial stake by working as a lifeguard at city beaches and installing underground sprinkler systems.

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.

Standing Accused: A Pillar of Finance and Charity



Bernard Madoff, in a 1999 photograph, had a reputation on Wall Street for giving investors consistent returns of just over 10 percent in bull and bear markets. He later became known for his charitable foundation and his public service at places like Yeshiva University. (Ruby Washington/The New York Times)

By ALAN FEUER and CHRISTINE HAUGHNEY

December 12, 2008

His company's portfolio was ample: $17 billion. His address was appropriate: East 64th Street, a few blocks off the park. He golfed at the Atlantic in the Hamptons and at the sunny Boca Rio in Boca Raton. He was reported to have three homes and a yacht in the Bahamas.

For Bernard L. Madoff, there was also his multimillion-dollar private foundation that doled out money to hospitals and theaters. Indeed, through his charity work at places like the Gift of Life Bone Marrow Foundation or his public service at institutions like Yeshiva University, where he served on the board, Mr. Madoff seemed to have created a stainless persona of integrity and trust.

From the start, in fact, a motto of his business captured this image of simplicity and directness: "The owner's name is on the door."

But with his arrest on Thursday on federal charges of cheating investors of $50 billion in a fraud scheme, Mr. Madoff's classic rise seemed to have had an equally spectacular fall.

"He was thought of as a great philanthropist, a pillar of the community, the chairman of Nasdaq — all of that stuff," said one hedge fund executive who knew him.

"There was a joke around that Bernie was actually the Jewish T-bill," the executive went on, referring to the ultrasecure investment of treasury bills. "He was that safe."

Mr. Madoff had traveled far from his roots in eastern Queens, where as a young man he cobbled together a $5,000 grubstake from his earnings as a lifeguard and sprinkler installer to start the famed investment firm that eventually bore his name, Bernard L. Madoff Investment Securities.

He had come to move easily in the clubby Jewish world that iterates between New York City and its suburbs and southern satellites like Palm Beach.

Indeed, in the world of Jewish New York, where Mr. Madoff, 70, was raised and found success, he is largely still considered as a macher: a big-hearted big shot for whom philanthropy and family always intertwined with — and were equally as important as — finance.

Mr. Madoff, who attended but never finished law school, was already rich by his early 50s, largely due to his intuitive grasp of the centrality of computers to high finance, he once told Forbes magazine. In an era when many, if not most, transactions were conducted on the phone, he turned his company into a fully automated operation that could make trades in as little as four seconds flat.

And soon the Madoff name — if not quite the equal of the Tisch name, for example — carried a quiet power.

"The guy never flaunted anything," said one longtime friend. "And that fit with his rate of return, which was never attention-grabbing, just solid 12-13 percent year in, year out."

The friend, a private investor who knows Mr. Madoff from the Palm Beach Country Club and from the Hamptons, said friends and investors had been calling nonstop since the arrest.

"The pain is just unbelievable," the friend said. "He was part of the family for so many people. There was this quiet culture of people, slightly older-money, who maybe weren't that interested in the market, who kept saying to each other, 'Just give Bernie your money, you'll be fine.'"

That culture had perhaps its best expression at the half-dozen golf clubs he belonged to, such as the Palm Beach Country Club in Florida.

“He and his wife were nice golfers,” said Denise Lefrak Calicchio, part of the Lefrak real estate family, who knew the Madoffs socially through several of their clubs. “He and his wife seemed lovely.”

With time, some wealthy investors even joined clubs in order to become part of Mr. Madoff’s investments, some who knew him said. It was considered a favor to be introduced to the man as a potential investor.

“There were people joining golf clubs just to get into his fund,” said one investor who declined to be named. “This guy was held in such high regard.”

A member of the Palm Beach club said the Madoffs did not socialize as much as other members did, nor did they fight as aggressively as others to keep up with the club’s more aerobic social climbers. They were well-liked, and did not appear to be part of the “blister pack,” as one club member put it, a term that refers to those who get blisters on their hands and feet from ascending social ladders.

“They seemed to stay apart from the herd,” the club member said. “They chose not to get into that social rat race.”

Mr. Madoff was, in fact, so popular with investors that he often turned away their money. After Barbara S. Fox, president of the Fox Residential Group in Manhattan, had sold his son, Andrew, an apartment, she pleaded with Mr. Madoff — unsuccessfully — to let her invest in the Madoff funds.

“I literally begged him,” she said. While Ms. Fox does not know why he turned her down, she called him “protective.”

Still, his refusal to take some investors added to his allure. Robert Ivanhoe, chairman of the real estate practice of the law firm Greenberg Traurig, said that he asked one of his clients who over two decades invested at least $50 million with Mr. Madoff to approach Mr. Madoff to see if he could invest with him. He knew Mr. Madoff as a major player in charitable groups.

Mr. Madoff declined. Mr. Ivanhoe said that the rejection made investing with Mr. Madoff even more appealing.

“He was turning people away all the time,” Mr. Ivanhoe said. “He didn’t need to be active in a charity to get more investors. People chased to invest in him.”

As Mr. Madoff’s success increased, so too did his interest in philanthropy, which was often handled, much like his business itself, as a family enterprise. He sits on the board of trustees for Yeshiva, whose officials issued a statement on Friday saying they were “shocked” at the news of Mr. Madoff’s arrest. And with his wife, Ruth, he runs the Madoff Family Foundation, a $19 million operation that last year gave money to Kav

Lachayim, a volunteer group that works in Israeli schools and hospitals, and to the Public Theater in New York.

It is perhaps a testament to the family's importance in Jewish philanthropic circles that when a nephew of Mr. Madoff's, Roger Madoff, died of leukemia in April 2006, paid death notices appeared in newspapers from charitable organizations ranging from the Gurwin Jewish Geriatric Center to the Lauri Strauss Leukemia Foundation to the Lower East Side Tenement Museum.

Family, too, has always been of outsized importance to Mr. Madoff, evidenced by the number of relatives he has brought into his business. His brother, Peter, joined the firm as a senior managing director shortly after graduating from law school in the late 1960s, and both of Mr. Madoff's sons, Mark and Andrew, joined the team after finishing their own educations. In 1978, Charles Weiner, a son of Mr. Madoff's sister, joined the firm; 17 years later, Peter Madoff's daughter, Shana, took a job with the company as a lawyer.

The family was so close that they even lived within blocks of each other on the Upper East Side.

"What makes it fun for all of us is to walk into the office in the morning and see the rest of your family sitting there," Mark Madoff told Wall Street and Technology magazine in August 2000. "That's a good feeling to have. To Bernie and Peter, that's what it's all about."

And when Mr. Madoff finally told two senior executives of his problems, he chose to confide in his sons, who would notify the authorities and begin a quick countdown to his arrest.

Eric Konigsberg contributed reporting.

The 17th Floor, Where Wealth Went to Vanish

By DIANA B. HENRIQUES and ALEX BERENSON

December 15, 2008

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.

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 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.

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 co-founder 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 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.”

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

Inquiry Finds No Signs Family Aided Madoff

By ALEX BERENSON and DIANA B. HENRIQUES

December 16, 2008

Federal investigators have found no evidence so far that members of Bernard L. Madoff's family helped him carry out what may be the largest financial fraud in history, according to a person briefed on the case.

Mr. Madoff's sons, Andrew and Mark, and his brother, Peter, all occupied senior positions at his firm, Bernard L. Madoff Investment Securities, whose assets were frozen after Mr. Madoff told law enforcement agents on Thursday that he had defrauded investors of up to $50 billion.

Although the enormous scale of the fraud prompted widespread questions about whether one person could concoct all the necessary paperwork such a fraud would entail, Mr. Madoff, 70, had insisted that his family was not involved in the Ponzi scheme. He said it was "all his fault," according to a criminal complaint filed last week.

And so far, investigators have not uncovered evidence that contradicts those statements, according to the person briefed on the case, who was not at liberty to comment publicly on it.

The person cautioned that the investigation was in its earliest stages, and examiners could still unearth evidence that Mr. Madoff's family knew about the fraud or even helped carry it out.

But employees of the firm have said that Mr. Madoff's sons and brother all seemed shocked on Thursday after the fraud was disclosed and Mr. Madoff was arrested. One of Mr. Madoff's sons had a substantial amount of money invested in the accounts that Mr. Madoff managed, investigators said.

John R. Wing, known as Rusty, a lawyer for Peter Madoff, said on Monday that investigators had not advised Peter that he was a target in the case, and that he expected to cooperate with investigators.

Peter Madoff, 62, reported to work on Monday to help investigators and a court-appointed receiver take control of the firm's assets and examine the firm's books, Mr. Wing said.

"As far as I know, Peter Madoff has been 100 percent cooperative," Mr. Wing said.

Peter Madoff was the firm's general counsel, while Andrew, 42, and Mark Madoff, 44, supervised the firm's stock-trading desks, which have so far not been implicated in the fraud. Both have worked at the firm since their 20s.

A person with direct knowledge of the information who was not authorized to speak for the sons said that Andrew Madoff and Mark Madoff had been told by law enforcement authorities that they were not targets in the case.

"They are considered to be fact witnesses only, neither subjects nor targets," the source said. "They are cooperating totally."

A lawyer for Frank DiPascali, another senior Madoff employee, declined to comment on whether his client is being investigated or cooperating with authorities.

Madoff employees have said that Mr. DiPascali was the most important figure in the separate staff that worked closely with Bernard Madoff on the 17th floor of the firm's office at the Third Avenue building known as the Lipstick Tower in Midtown Manhattan. That operation also had its own computer systems, and did not process its trades through the Madoff firm, they said.

Bernard Madoff told his sons that the trading was being done through European counterparties, according to several people familiar with the history of the firm.

The firm's stock traders and other support staff worked on the 18th and 19th floors, where they were supervised by Peter, Andrew and Mark Madoff.

The complaint filed last week states that Bernard Madoff told two unidentified senior employees on Dec. 10 that he had defrauded the firm's investors. Those senior employees were Andrew and Mark Madoff, according to several people knowledgeable about the case who were not at liberty to discuss it publicly.

They then called a friend, Martin Flumenbaum, who is a partner at the law firm of Paul, Weiss, those people said. After they told Mr. Flumenbaum about their father's confession, he called federal prosecutors and the Securities and Exchange Commission.

On Thursday morning, Andrew and Mark Madoff met with federal authorities. The F.B.I. then sent two agents to their father's apartment to interview him. He confessed and was arrested, according to documents filed in the case.

Since Thursday, Andrew and Mark have not been able to talk to their uncle or their father because they are considered witnesses in the case and must avoid pretrial discussions that might touch on their experiences.

One of Mr. Madoff's sons had "a meaningful amount of money" invested with his father and got statements that were no different than those received by other investors, the people said. Andrew and Mark have told associates that their father's confession suggested to them that the fraud had been going on for several years, one said.

Monday afternoon, a federal judge appointed a trustee to liquidate Bernard L. Madoff Investment Securities, the broker-dealer that was the core of Mr. Madoff’s business. The trustee, Irving H. Picard, was appointed at the request of the Securities Investor Protection Corporation, the government-chartered fund set up to help protect investors of failed brokerage firms.

“It is clear that the customers of the Madoff firm need the protections available under federal law,” said Stephen P. Harbeck, the president of the corporation.

But in a statement, the agency warned that “the scope of the misappropriations and the state of the defunct firm’s records will make this more difficult than in most prior brokerage firm insolvencies.”

Normally the agency can simply transfer a failing firm’s customer accounts to a solvent brokerage house. That may not be possible in this case, Mr. Harbeck said. Moreover, since the agency does not know how much money is actually missing, it cannot determine how to apportion any customer assets that are recovered.

Wall St. Fraud Leaves Charities Reeling

By STEPHANIE STROM

December 16, 2008

When Jeanne Levy-Church created the JEHT Foundation in 2002 to promote justice, equality, human dignity and tolerance, she tapped into investments run by Bernard L. Madoff.

Those investments were initially made more than three decades ago by her father, Norman Levy, who entrusted his real estate fortune to Mr. Madoff. Financed solely by regular contributions from Ms. Levy-Church, the foundation gave away more than $75 million over the next few years.

But on Monday, the young foundation announced that it would cease operations by the end of January — a victim of the same investments that made it a star in liberal philanthropic circles. “The returns had been steady and strong for all these years,” said Robert Crane, the foundation’s chief executive. “It was shocking.”

Mr. Madoff’s investment firm, Bernard L Madoff Investment Securities, collapsed last Thursday when federal regulators arrested him on charges that he had masterminded a scheme defrauding investors of $50 billion by his own estimate.

Elite Swiss banks, prominent billionaires, asset management companies and wealthy retirees have lost billions in the scandal.

Around the country, the nonprofit community is reeling from the Madoff scandal. At least two other foundations have been forced to close their doors, having lost virtually all their assets to what authorities describe as a Ponzi scheme that depended on new investment money to pay off on earlier investments.

Charities that depended on those foundations for financing, like the Innocence Project and the UJA Federation, and wealthy donors like Norman Braman, Mort Zuckerman and J. Ezra Merkin have now added the Madoff scandal to the list of reasons that fund-raising has been crimped this fall. In some cases, the foundations had placed their money with Mr. Madoff directly; others had invested with funds that turned assets over to him. And some nonprofits relied on a steady stream of money from donors, like Ms. Levy-Church, with now vanishing fortunes.

“It’s not catastrophic, but it does hurt us,” said Madeline deLone, executive director of the Innocence Project, which was supported by JEHT in its work to use DNA evidence to exonerate improperly convicted criminals and to reform criminal justice.

The Elie Wiesel Foundation for Humanity, the Ramaz School and Yeshiva University are among the charities that invested in the Madoff funds, often on the advice of wealthy donors on their boards, and are now grappling with the fallout.

"We are just waiting to understand exactly what's going on," Marc Winkelman, the chief of the Texas-based chain of Calendar Club stores and the treasurer of the Wiesel organization, said on Friday. "It's of course an upsetting thing."

According to its 2006 tax form, the most recent available, the Wiesel Foundation realized a $310,520 gain that year on some $37 million of securities traded on its behalf by Mr. Madoff. It is unclear what portion of the organization's endowment that $37 million represents. Mr. Winkelman did not return a call seeking clarification.

The tax forms show trading of well-known stocks like Johnson & Johnson, PepsiCo and I.B.M., as well as government bonds, all of which may have led the Wiesel organization to believe that its portfolio was well diversified.

Yeshiva University lost $100 million to $110 million on investments in Madoff's funds, having already seen its endowment drop to $1.4 billion, from $1.8 billion, after turmoil in the markets.

In a letter to donors, the Jewish Federation of Greater Washington said it had $10 million invested with Mr. Madoff, about 8 percent of its endowment as of Nov. 30. The organization said it would work to recover the money.

The North Shore-Long Island Jewish Health System reported that it had a $5.7 million exposure to Madoff Securities in the form of a gift from a donor who insisted that it be invested that way. "The donor who contributed the funds has graciously agreed to reimburse the health system for any financial loss," the organization said in a statement.

The Ramaz School, where Mr. Merkin was on the investment committee, lost some $6 million invested with Mr. Madoff, according to a letter sent to board members and two parents whose children attend the school.

"It is a small part of our endowment," said Rabbi Haskel Lookstein, the Ramaz principal. "We will be able to continue functioning normally."

Miriam Rinn, a spokeswoman for the Jewish Community Centers Association of North America, the umbrella organization for J.C.C. organizations in the United States and Canada, said it was still working to determine how much it might have lost in the Madoff scandal.

"We're shocked," Ms. Rinn said. But "we're still going ahead with all of our services."

The Carl and Ruth Shapiro Family Foundation, which supports organizations like the Brigham and Women's Hospital in Boston and the Jewish Federation of Palm Beach in Florida, said it lost $145 million, or 45 percent of its assets at the end of last year, because of investments with Mr. Madoff.

“I was stunned and saddened to learn about the allegations against Bernie Madoff,” Carl Shapiro said in a statement. “It is devastating to think that so many charities, individuals and institutions that had put their trust in Mr. Madoff have had their lives so negatively impacted.”

He said his foundation would work to recover its investment and would honor all its commitments.

The SAR Academy, a Jewish school in the Bronx, had roughly a third of its $3.7 million in assets invested with Mr. Madoff, according to an e-mail message it sent to donors and parents. That exposure was through the Ascot Partners, an investment fund run by Mr. Merkin, the chairman of GMAC.

And Steven Spielberg’s Wunderkinder Foundation, which supports organizations like the Cedars-Sinai Medical Center and the Chabad charity Children of Chernobyl, had investments with Mr. Madoff, although a spokesman said he did not know how much.

The Chais Family Foundation in Encino, Calif., announced over the weekend that its losses had forced it to stop operating, according to the Jewish Telegraphic Agency. The foundation had $178 million in assets in May 2007, according to its tax form.

The Robert I. Lappin Charitable Foundation of Salem, Mass., had about $7 million at the end of 2006, but was forced to shut down at the end of last week.

Ms. Levy-Church and her husband, Ken Levy-Church, supported JEHT each year with a contribution from their Madoff funds. There will be no more.

“Our programming is totally dependent on the ongoing funding, so for all intents and purposes it has ceased,” said Mr. Crane, JEHT’s chief executive. “People with grants currently in hand will keep that money, of course, but we can’t make good on pledges and grants that are for multiple years.”

The foundation’s 24 employees are losing their jobs, and organizations like Human Rights First and the Juvenile Law Center are losing revenue.

Elisa Massimino, the executive director and chief executive of Human Rights First, said JEHT had been a “significant” supporter of the organization, particularly its work on national security and civil liberties.

Reporting was contributed by Javier C. Hernandez, Eric Konigsberg, Christine Haughney and Glenn Collins.

S.E.C. Says It Missed Signals on Madoff Fraud Case

By ALEX BERENSON and DIANA B. HENRIQUES

December 17, 2008

The Securities and Exchange Commission said Tuesday night that it had missed repeated opportunities to discover what may be the largest financial fraud in history, a Ponzi scheme whose losses could run as high as $50 billion.

The commission said it received credible allegations about the scheme at least nine years ago and will immediately open an internal investigation to examine why it had failed to pursue them aggressively.

The S.E.C. issued the statement hours after Bernard L. Madoff, the 70-year-old Wall Street executive accused of operating the scheme, discussed the fraud with federal authorities at a meeting in New York on Tuesday, according to people briefed on the meeting.

"Our initial findings have been deeply troubling," Christopher Cox, the S.E.C. chairman, said in his statement. The commission received "credible and specific allegations regarding Mr. Madoff's financial wrongdoing," but did not respond aggressively, he said.

"I am gravely concerned by the apparent multiple failures over at least a decade to thoroughly investigate these allegations or at any point to seek formal authority to pursue them," Mr. Cox said.

Moreover, Mr. Cox said, the commission will investigate "all staff contact and relationships with the Madoff family and firm, and their impact, if any, on decisions by staff regarding the firm." Mr. Cox added that he had ordered S.E.C. staff to recuse themselves from the investigation if they had "more than insubstantial personal contacts with Mr. Madoff or his family."

One of the commission's investigative teams that had examined the Madoff firm was headed by a lawyer named Eric Swanson, who served for 10 years as a lawyer at the commission and left in 2006 while he was an assistant director of the office of compliance inspections and examinations in Washington.

In 2007, Mr. Swanson married Shana Madoff, a niece of Bernard L. Madoff and daughter of his brother, Peter Madoff, the firm's chief compliance officer. Ms. Madoff is the firm's compliance attorney.

Eric Starkman, a spokesman for Mr. Swanson, said that Mr. Swanson's "romantic relationship with his wife began years after the compliance team he helped supervise made an inquiry about Bernard Madoff's securities operations." And Randy Williams, a spokesman for Mr. Swanson's current employer, BATS Exchange in Kansas City, said that Mr. Swanson had not participated in any inquiry of into the Madoff firm or its affiliates while he was involved in a relationship with Ms. Madoff.

Besides investigating Mr. Madoff, regulators are now in the embarrassing position of examining whether they should have caught him sooner.

Mr. Madoff kept several sets of books and false documents and lied to regulators when they questioned him in previous examinations of his firm, Bernard L. Madoff Investment Securities, Mr. Cox said.

Investigators never used subpoena powers to obtain information, but rather "relied on information voluntarily produced by Mr. Madoff and his firm," Mr. Cox said.

When he was arrested last week, Mr. Madoff estimated that investors lost as much as $50 billion in the fraud, according to court filings. Mr. Madoff has said the scam was a Ponzi scheme, a type of fraud in which early investors are paid off with money from later victims, until no more money can be raised and the scheme collapses.

Over the decades, Mr. Madoff steadily expanded his circle of investors, drawing in small individual investors, charities, pension funds, prominent billionaires and European banks. On Tuesday, a Vienna bank, Bank Medici, became the latest major institution to acknowledge it was a client of Mr. Madoff, saying it had $2.1 billion invested with him. Institutions and individuals have now reported losses of more than $20 billion.

Stephen Harbeck, the chief executive of the Securities Investor Protection Corporation, which has taken control of Mr. Madoff's firm through a trustee, said the firm appeared to have multiple sets of books and that he was unsure how much money, if any, Mr. Madoff's clients would eventually recover.

"The trustee and SIPC have been involved in this case for about 24 hours," Mr. Harbeck said. "You're talking about an ongoing fraud that lasted for decades."

Attorneys for Mr. Madoff declined to comment on Tuesday night about Mr. Madoff's conversations with government authorities.

"We have said from the beginning that we are cooperating fully with the government investigation," said Ira Lee Sorkin, one of the lawyers. When pressed, Mr. Sorkin said he had used "we" to refer to "the company, whose sole shareholder is Bernie Madoff." Mr. Sorkin would not confirm that Mr. Madoff himself was providing first-hand cooperation.

Extensive cooperation from Mr. Madoff could substantially shorten the time it will take for regulators to track down any available assets, locate any other people who may have been involved in the fraud and determine whether investors will recover any of their losses.

The first indication that Mr. Madoff might be talking to authorities came at midmorning, when a federal judge delayed a bond hearing for Mr. Madoff that had originally been set for 2 p.m. Tuesday afternoon.

At the request of federal prosecutors, the hearing was rescheduled for the same time on Wednesday. No reason for the postponement was given, nor would the federal prosecutor's office or Mr. Madoff's lawyers comment on the delay.

Mr. Madoff was arrested at his Upper East Side apartment in Manhattan last Thursday by F.B.I. agents, after his two sons — both of whom work for the company — reported that he had confessed to them that his money-management business was "basically, a giant Ponzi scheme" and "a big lie."

The criminal complaint under which he was arrested charged him with a single count of securities fraud. He surrendered his passport and was released on a $10 million bond, secured by his apartment and co-signed by his wife and his brother, Peter Madoff, who was also the general counsel at his trading firm.

William K. Rashbaum and Steven Labaton contributed reporting.

Authorities Ease Madoff's Bail Terms

By ALEX BERENSON

December 18, 2008

Bernard L. Madoff, the New York financier who authorities say has confessed to a $50 billion Ponzi scheme, will not be going to jail even though he failed to meet the original terms of his $10 million bail agreement.

Federal prosecutors said on Wednesday that they had modified the terms of Mr. Madoff's agreement so that he would not need to find four people to co-sign his bond. Mr. Madoff was unable to meet that condition, prosecutors said. Even his sons, Andrew and Mark, were apparently unwilling to help. A lawyer for the sons has said they were unaware of the scheme and are cooperating with the authorities.

Instead, Mr. Madoff has agreed to a nightly curfew, and his wife, Ruth, will surrender her passport, according to a federal court filing Wednesday morning. Mr. Madoff has already given up his passport. Mr. Madoff must remain at his apartment on East 64th Street in Manhattan from 7 p.m. to 9 a.m.

During the day, Mr. Madoff will still be allowed to travel throughout Connecticut, southern New York and Long Island. Previously, he had faced no restrictions on his travel in those areas, allowing him to sleep at his oceanfront estate in Montauk if he chose.

Even as Mr. Madoff's sphere of liberty shrank slightly, new details about his wealth emerged Wednesday. Besides having a 55-foot boat in Florida, Mr. Madoff owned a yacht in the south of France and was a regular at the Hotel du Cap-Eden-Roc in Antibes, near Nice, where suites rent for as much as 5,000 euros — more than $7,000 — a night, according to one person who had invested with him and had seen him at the hotel; the person asked to remain anonymous because he had lost money.

BLM Air Charter, a company registered to the same address as Mr. Madoff's firm, owned a share of a Cessna jet, according to Federal Aviation Administration records. The jet, a Citation X, is a high-performance business jet, capable of flying across the Atlantic at 700 miles an hour. BLM is also listed as the co-owner of a second, smaller jet, which regularly traveled to Florida, the Bahamas and the Caribbean.

Prosecutors have faced criticism for allowing Mr. Madoff relatively lenient bail terms, given his lifestyle, the scope of his suspected fraud and the fact that some of his victims say they have lost everything and face destitution.

Charities, individual investors, universities, hedge funds and banks have already reported losses of more than $20 billion in the case. On Wednesday, Hadassah, a Jewish women's charity, became the latest group to report falling victim to Mr. Madoff, saying it had lost $90 million.

Marc Litt, the assistant United States attorney who is overseeing the case, did not return a call for comment on the bail agreement. A spokeswoman for the United States attorney's office in Manhattan declined to comment.

Ira Lee Sorkin, a lawyer for Mr. Madoff, said he could not comment on the new agreement. He said Mrs. Madoff's surrender of her passport was "standard operating procedure."

Federal authorities stepped up their search on Wednesday for other assets belonging to Mr. Madoff. F.B.I. agents and investigators from the Securities and Exchange Commission combed through the offices of his firm, Bernard L. Madoff Investment Securities. The firm occupies three floors at the Third Avenue building known as the Lipstick Tower in Midtown Manhattan.

Late in the day, authorities were removing boxes of files from the offices. In a statement Tuesday, the S.E.C. said Mr. Madoff had kept multiple sets of books, so reconstructing the flow of money might require substantial effort.

When he was arrested last week, Mr. Madoff estimated that investors had lost as much as $50 billion in the fraud. Mr. Madoff has said the business was a Ponzi scheme, a type of fraud in which early investors are paid off with money from later victims, until no more money can be raised and the scheme collapses.

Federal authorities had a long meeting with Mr. Madoff on Tuesday and hope to resolve some questions in the case in the near future, including whether Mr. Madoff had assistance in the scheme, according to one person briefed on the matter.

Experts on the brokerage industry and money management have said it would be nearly impossible for Mr. Madoff to have carried out the fraud, which encompassed thousands of clients and lasted for many years, without substantial help. They have also questioned why auditors and regulators at the S.E.C. and the Financial Industry Regulatory Authority did not notice that Mr. Madoff's firm had far fewer assets in 2007 than the $17 billion he claimed to be managing.

The authorities also would like to determine Mr. Madoff's motivation for the fraud, when it began and how much of the stolen money he had spent on himself. The case may spur the F.B.I.'s New York office to add more investigators and support staff to handle securities fraud and other white-collar crime.

In Washington, Attorney General Michael B. Mukasey decided to recuse himself from the investigation into Mr. Madoff, the Justice Department said Wednesday. Mr. Mukasey's son, Marc, is a defense lawyer at the law firm of Bracewell & Giuliani, which represents Frank Di Piscali, a senior manager at Mr. Madoff's firm.

Peter Carr, a spokesman for the Justice Department in Washington, said that the attorney general had decided to recuse himself when he learned of his son's relationship to the case. In another potential conflict, the attorney general and his wife, Susan, have close ties to an Orthodox Jewish school in Manhattan, the Ramaz school, where she has served on the board. The school was an investor in Mr. Madoff's firm.

The investigation is led by federal prosecutors in Manhattan, and the deputy attorney general, Mark Filip, will be the senior official in Washington overseeing the case. However, the investigation will almost certainly extend past the start of the Obama administration next month.

Mr. Carr said the role of Mr. Mukasey's son alone was "an obvious reason" for the attorney general to recuse himself.

Eric Lipton and William K. Rashbaum contributed reporting.

Madoff Scheme Kept Rippling Outward, Across Borders

By DIANA B. HENRIQUES

December 19, 2008

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; 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.

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 comfortatle 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, a member 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 directors 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 vineyard. 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.”

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.

Financier Is Found Dead in a Madoff Aftermath

By ZACHERY KOUWE and MICHAEL WILSON

December 24, 2008

Around 4 a.m. on Monday, a prominent hedge fund manager who apparently had lost $1.4 billion with Bernard L. Madoff, telephoned a longtime client in Paris, sounding upset.

"I have to fight for my clients and myself," the money manager, R. Thierry Magon de la Villehuchet, told the client, who spoke on the condition of anonymity because of investigations into the $50 billion Ponzi scheme Mr. Madoff is suspected of orchestrating. "It's a complete nightmare.

A little more than 24 hours later, Mr. de la Villehuchet was found dead in his office on Madison Avenue. The evidence pointed to suicide, the police said on Tuesday.

Security officers discovered the body of Mr. de la Villehuchet, a co-founder of Access International Advisors, in a chair, with one of his legs propped on his desk. His wrists and his left biceps were slashed, said Paul J. Browne, a New York police spokesman. A wastebasket had been placed under his bleeding biceps, Mr. Browne said.

No suicide note was found, but sleeping pills and a box cutter were discovered under his desk.

Mr. de la Villehuchet, 65, was in his office at 7 p.m. on Monday and had asked the cleaning staff to clean up early because he would be working late.

Later that evening, one of the firm's partners asked a security guard to see if Mr. de la Villehuchet was still in his office, but the door was locked, and the guard had no key, the police said.

During the last week, as the scale of the scheme came to light, Mr. de la Villehuchet had tried unsuccessfully to recover his clients' money, the client said. Mr. de la Villehuchet told the client in Paris on Monday morning that he felt that he had betrayed clients and friends.

"He said he felt robbed," the client said.

A native of the Brittany region of France, Mr. de la Villehuchet was described by friends as a man who was devoted to his firm. He founded Access International Advisors in 1994 with Patrick Littaye after his tenure as chairman and chief executive of the United States investment banking arm of the French bank Crédit Lyonnais.

Mr. de la Villehuchet, an avid sailor and a member of the New York Yacht Club, lived in Westchester County with his wife. The couple also owned a home in Brittany. No one responded to a telephone call to Mr. de la Villehuchet’s home or to messages left at Access International’s offices.

Early Tuesday afternoon, several reporters and photographers gathered in front of the narrow entrance to Access International’s office on Madison Avenue, a few blocks from Rockefeller Center.

Access International is one of several so-called feeder funds that funneled money from investors across the globe into Mr. Madoff’s collapsed firm. The news of Mr. de la Villehuchet’s death came as investors in other feeder funds with exposure to Mr. Madoff, including Fairfield Greenwich Group and Tremont Group Holdings, began suing those funds alleging negligence and breach of fiduciary duty.

Access International managed $3 billion, but its Luxalpha American Selection fund invested all of its assets with Mr. Madoff. In a letter to fund investors last week, the New York-based firm called Mr. Madoff’s arrest “a shocking development” and said it was assessing the situation.

Investors in the Luxalpha fund were mostly wealthy European clients of Rothschild investment bank and UBS, which was the custodian and administrator of the Luxalpha fund until this year, when Access International took over.

UBS has said that wealthy European clients, attracted by Mr. Madoff’s stellar returns, had asked the bank to set up a fund to invest with him.

Nelson D. Schwartz contributed reporting from Paris and Michael J. de la Merced from New York.

Bid to Revoke Madoff's Bail Cites His Gifts

Bernard L. Madoff, right, leaving Federal District Court in Manhattan last week after a hearing at which prosecutors asked a judge to revoke his bail. (Michael Appleton for The New York Times)

By ALEX BERENSON

January 5, 2009

Contending that Bernard L. Madoff sent at least a million dollars' worth of jewelry as gifts to family members and friends last month, federal prosecutors asked a judge on Monday to revoke his bail and send him to jail.

Mr. Madoff, who has been free after posting bail of $10 million when he was charged last month with securities fraud, remained free after the hearing pending a ruling by the magistrate judge, Ronald L. Ellis of United States District Court in Manhattan.

Judge Ellis ordered each side to submit legal briefs on the matter by Wednesday.

United States Attorney Marc O. Litt asked for revocation of Mr. Madoff's bail, arguing that the gifts violated conditions that barred him from disposing of any of his assets.

The newly aggressive stance by prosecutors appeared to represent a serious deterioration in relations between the government and Mr. Madoff, who is said to have confessed to a huge Ponzi scheme last month and had seemed to be cooperating with investigators trying to unravel the fraud. In an interview on Monday evening, a lawyer for Mr. Madoff backed away from earlier statements that Mr. Madoff was helping investigators.

While Mr. Madoff faced the potential loss of his freedom in New York, the Securities and Exchange Commission came under heavy criticism from lawmakers in Washington.

At a hearing Monday afternoon, members of a House committee questioned why the agency had not uncovered Mr. Madoff's fraud long before early December, when he is said to have confessed it to F.B.I. agents. The S.E.C.'s inspector general, H. David Kotz, promised a full investigation.

At the court hearing in New York, Mr. Litt told Judge Ellis that Mr. Madoff and his wife, Ruth, had mailed packages of valuables in late December to his sons, his brother and friends. Since mid-December, Mr. Madoff has been under house arrest at his luxury apartment on the Upper East Side of Manhattan, guarded by private security guards paid for by his wife.

By sending the packages, Mr. Madoff violated the terms of his bail agreement with the government, Mr. Litt said. He said that Mr. Madoff was a flight risk and asked that his bail be revoked immediately.

"The case against the defendant is strong and it continues to grow stronger as the government's investigation continues," Mr. Litt said. "Given the defendant's age, the length of the likely sentence, the strength of the proof against the defendant, including his confessions, these facts present a clear risk of flight."

Ira Lee Sorkin, a lawyer for Mr. Madoff, said at the hearing that Mr. Madoff had not meant to violate the agreement and should not be sent to jail. Mr. Madoff is not a flight risk, and he and his wife tried to recover the valuables after speaking to their lawyers and realizing they should not have mailed them, Mr. Sorkin said.

But speaking after the hearing, Mr. Sorkin disavowed his earlier statements that Mr. Madoff was cooperating with prosecutors and F.B.I. agents seeking to unravel the Ponzi scheme.

"No one ever said he was cooperating with the government," Mr. Sorkin said — though he had previously said that "we" were helping investigators from the F.B.I. and the S.E.C. Mr. Sorkin said he had meant that Mr. Madoff's firm, Bernard L. Madoff Investment Securities L.L.C., was cooperating with the investigation.

Mr. Madoff told F.B.I. agents last month that he had overseen a financial fraud that had cost investors as much as $50 billion, according to a criminal complaint filed in federal court in Manhattan. The fraud was continuing just days before Mr. Madoff confessed it to the F.B.I., according to a lawsuit filed by a New York company that claims Mr. Madoff took in $10 million from it on Dec. 5.

A government-appointed receiver has now taken over his firm, and S.E.C. agents and F.B.I. investigators are conducting a far-flung investigation to see who might have aided Mr. Madoff. On Monday, the trustee overseeing the liquidation of Mr. Madoff's firm sent 8,000 claim forms to people who may have invested with Mr. Madoff, asking them to detail what they believe they are owed.

Judge Ellis, who is overseeing the criminal case that prosecutors filed last month, did not make an immediate decision on the government's request to revoke Mr. Madoff's bail. Prosecutors must submit a filing supporting the request by the end of the day on Tuesday, and Mr. Madoff's lawyers have until the end of the day on Wednesday to respond.

The allegations about the gifts came just days after the disclosure that Mr. Madoff was still accepting investor funds in the days leading up to the fund's collapse.

In documents filed in United States Bankruptcy Court last week, a family corporation set up by Martin Rosenman, a resident of Great Neck, N.Y., and the president of Stuyvesant Fuel Service, a heating oil distributor in the New York area, invested $10 million in the Madoff funds on Dec. 5.

On Dec. 9, two days before Mr. Madoff was arrested, Mr. Rosenman was notified by the Madoff firm that his money had been received and invested, according to Mr. Rosenman's lawyer, Howard Kleinhendler of Wachtel & Masyr.

Last week, Mr. Madoff's sons, Andrew and Mark, received three packages, containing valuable jewelry and watches, as well as inexpensive items like cuff links and mittens, according to a person briefed on the contents of the packages. Within minutes of receiving the packages, Mr. Madoff's sons called the law firm of Paul, Weiss, Rifkind, Wharton & Garrison, which is representing them, to tell them about the packages, this person said.

Lawyers for Paul, Weiss then informed prosecutors of the packages and offered to pass them to the government. Prosecutors accepted the offer.

Mr. Madoff's sons worked for many years at their father's firm but have said through a spokesman that they were unaware of any wrongdoing and are cooperating with investigators. So far, they have not been named as targets of the investigation into the Ponzi scheme.

At the bail hearing, Mr. Sorkin, Mr. Madoff's lawyer, said other packages had been sent to Peter Madoff, Bernard's brother, as well as an unnamed couple who live in New York but were vacationing in Florida. He said many of the items were relatively inexpensive, including a pair of $25 cuff links and $200 mittens.

At the House hearing in Washington, both Democrats and Republicans said that the Securities and Exchange Commission had failed to follow up on warnings and red flags that might have uncovered Mr. Madoff's scheme years earlier.

"This elaborate Ponzi scheme fell through the cracks of our regulatory system," said Representative Paul Kanjorski, Democrat of Pennsylvania and a member of the House Financial Services Committee, which held the hearing.

But the star witness who had warned the S.E.C. for nearly a decade about Mr. Madoff, Harry Markopolos, a former investment manager, declined to appear at the last minute.

A lawyer for Mr. Markopolos, Philip R. Michael, said that his client was suffering from a sinus infection and had taken bed rest. Furthermore, Mr. Markopolos will testify as a friendly witness, seeking no bounty or compensation for his testimony.

"He's ready to tell them what he knows," Mr. Michael said.

Edmund L. Andrews and Michael J. de la Merced contributed reporting.

New Description of Timing on Madoff's Confession

By DIANA B. HENRIQUES

January 10, 2009

Peter B. Madoff, the younger brother and longtime business partner of Bernard L. Madoff, has said that his brother disclosed his huge fraud scheme to him the evening before confessing to his sons, according to people briefed on the chronology of the scandal.

The timing of the confessions raises questions about whether Peter Madoff had an obligation to report his brother's alleged $50 billion Ponzi scheme to federal authorities immediately, as the Madoff sons did when their father informed them the next day, Dec. 10.

Since his arrest on Dec. 11, Mr. Madoff has remained free under a $10 million bond signed by his wife and his brother and secured by his wife's residential property in New York City, Long Island and Florida. Since Dec. 18, he has been confined to his apartment under 24-hour guard.

A federal magistrate has said that he will rule at noon on Monday whether to order Mr. Madoff to jail pending a trial on criminal securities fraud charges. Federal prosecutors asked that bail be revoked after Mr. Madoff and his wife mailed about $1 million worth of diamond watches and other jewelry to friends and family members, including his brother, on Dec. 24, despite a freeze on his assets.

These fresh details highlight an interlocking relationship at the heart of the Madoff stock-trading business, a family business now considered a crime scene that leaves family members to communicate with one another through lawyers.

John R. Wing, the lawyer for Peter Madoff, declined to answer questions about the timing of Bernard Madoff's disclosures to his brother. Mr. Wing has said in recent weeks that Peter Madoff did not know about the fraud beforehand and was cooperating fully with federal investigators.

Ira Lee Sorkin, a lawyer for Bernard Madoff, also refused to comment on the chronology of his client's confession. In a filing he made this week opposing bail revocation, Mr. Sorkin reported that his client confessed to his sons, his brother and his wife on the same day, Dec. 10.

But the federal criminal complaint says only that Bernard Madoff told his sons that day that he had confessed to his brother “recently.” People briefed on that chain of events say that Peter actually learned about the alleged crime on Dec. 9.

Besides being a lawyer by training, Peter Madoff was senior managing director and the chief compliance officer for his brother’s firm, Bernard L. Madoff Investment Securities.

Did that give him a special obligation to immediately report the confession?

Absolutely, according to some securities law experts, who cite the heavy reliance of the brokerage industry on self-regulation and internal compliance — a reliance that would certainly have been familiar to Peter Madoff, a longtime official on various industry compliance committees and self-regulatory associations.

“If there is just a strict employee relationship, as chief compliance officer, there should be zero pause time before you report it,” said Lilly Ann Sanchez, a former federal prosecutor and a white-collar criminal defense lawyer with Fowler White Burnett, a law firm in Miami.

But even Justice Department manuals acknowledge that family relationships are different, she said. “He may just have needed a night to sleep on it — it was his brother, after all,” she added.

Neil V. Getnick, a lawyer in New York City who works as a corporate monitor in fraud cases, sees it differently — but agrees there are plausible reasons Peter Madoff may have waited.

Because of his official position, Peter Madoff “may have more narrow options than the sons because he may have to follow some sort of compliance protocol that prevented immediate action,” Mr. Getnick said. For example, he may have needed time to locate and retain outside or independent counsel, he said.

“The best that can be said is: he did not make an individual report,” Mr. Getnick said. “But that in no way means that he did not take the appropriate action — we just don’t know the answer to that.”

When Bernard Madoff’s sons were told by the father about the fraud, they quickly sought legal advice from a friend, Martin Flumenbaum, of the Paul, Weiss, Rifkind, Wharton & Garrison law firm in New York, who advised them to make an immediate report of what seemed to be a continuing crime, according to court filings.

Indeed, lawsuits have claimed that Mr. Madoff was accepting new cash from investors within a week of his arrest. Authorities have subsequently found 100 signed checks in his office desk drawer, totaling more than $173 million, that he was ready to mail as early bonuses to employees, family members and friends.

Peter Madoff would most certainly have been on that bonus list. Now 62, he joined his brother's firm in 1970, after earning his undergraduate degree from Queens College and his law degree from Fordham Law School.

He had embraced his brother's interest in developing computer-driven trading methods that could harness technology to speed up stock transactions and reduce costs. Although his brother would tease him about his sometimes legalistic comments, he was a frequent spokesman for the firm while it helped pioneer the development of what became the Nasdaq marketplace.

Now, he is mired in the mess that his brother has made of that business. Along with assisting regulators in tracing assets and standing bail for his brother, he has been served a subpoena in a separate investigation being done by Massachusetts regulators, according to William F. Galvin, the secretary of the commonwealth and chief securities regulator for Massachusetts. Mr. Galvin said the Madoff collapse had cost investors and institutions in his state hundreds of millions of dollars.

Judge Allows Madoff to Remain Free on Bail

The disgraced financier Bernard L. Madoff arrived at Federal Court in Manhattan on Wednesday. (Michael Appleton for The New York Times)

By DIANA B. HENRIQUES

January 15, 2009

The disgraced financier Bernard L. Madoff, confined for weeks to his Manhattan apartment under 24-hour guard, got a chilly outing to the courthouse on Wednesday — and, after a federal judge refused to revoke his bail, it was a round trip.

Tracked to the courthouse doors by helicopters and video cameras, Mr. Madoff sat in silence during the hourlong hearing as his lawyers did battle with federal prosecutors who want him sent to jail pending resolution of the criminal case that accuses him of running a $50 billion Ponzi scheme.

He had already won one round in this fight. On Monday, Magistrate Judge Ronald L. Ellis of Federal District Court denied the government's request that he revoke Mr. Madoff's $10 million bail, secured by real estate and the signatures of his wife and his brother. The government had not made a convincing case that Mr. Madoff was likely to obstruct justice, hide away assets or flee to avoid prosecution if he remained under house arrest, the magistrate said.

An assistant United States attorney, Marc O. Litt, tried again on Wednesday, appealing the magistrate's decision to Judge Lawrence M. McKenna. Again, he described how Mr. Madoff had mailed out about $1 million in expensive jewelry to family and friends in late December, defying a court order freezing his assets.

Given that, can Mr. Madoff be trusted to comply with any of his bail conditions? "The government believes the answer to that question is no," Mr. Litt said.

Ira Lee Sorkin, a lawyer for the 70-year-old defendant, told Judge McKenna that the jewelry gifts were mailed out by Mr. Madoff and his wife in "what turned out to be a desperate and futile effort to reconnect with their family." he gesture was made "in error, innocently, mistakenly, even stupidly," Mr. Sorkin said. But it did not constitute grounds for revoking Mr. Madoff's bail, he argued.

Mr. Madoff, his silver hair curling long over his collar, wore a dark gray chalk-stripe suit and deep navy tie and fidgeted occasionally, drumming his fingertips softly on the table's edge, during Mr. Sorkin's arguments. His only visible sign of emotion — a deep flush and a sudden downward stare — came when Mr. Sorkin noted in passing that Mr. Madoff's sons, Mark and Andrew, had immediately turned over his expensive gifts to the prosecutors.

In the end, Judge McKenna upheld the magistrate's ruling, adding only a provision that Mr. Madoff supply an inventory of personal valuables in his wife's Palm Beach and Long Island homes. Judge Ellis had already ordered such an inventory of the couple's Manhattan apartment.

The ruling allows Mr. Madoff to remain on bail, confined to his apartment under 24-hour guard. Both he and his wife have surrendered their passports.

The hearing was the latest twist in the court proceedings over Mr. Madoff, which have been captured in detail by the media. His trip to court was shown live on television from a camera in a helicopter.

Mr. Madoff, hatless and wearing a dark fitted overcoat, did not speak as he was ushered into the courthouse around 1:15 p.m., moving past metal barricades lined with photographers. Earlier, a silver sport utility vehicle had pulled out of the driveway in front of Mr. Madoff's home, The Associated Press said. Paper on its side windows blocked any view of its passengers.

In asking the court to revoke Mr. Madoff's bail, prosecutors had also cited Mr. Madoff's plans, shared with his sons the day before his confession, to transfer $200 million to $300 million of investors’ money to family members and friends. Authorities searching Mr. Madoff’s office desk found $173 million in signed checks ready to be sent.

The magistrate’s decision on Monday added restrictions to the bail terms, requiring that Mr. Madoff’s outgoing mail be monitored by a security firm.

Many of the new bail requirements had already been imposed by Judge Louis L. Stanton of United States District Court, who is handling a civil case brought by the Securities and Exchange Commission.

’92 Ponzi Case Missed Signals About Madoff

In Nantucket, Mass., sits one of Frank Avellino’s homes. His dealings with Bernard L. Madoff, which began decades ago, are drawing scrutiny in the wake of the government’s Madoff investigation. (Daniel Sutherland for The New York Times)

By ALEX BERENSON

January 17, 2009

Seventeen years ago, federal investigators questioned for the first time whether Bernard L. Madoff was connected to a Ponzi scheme. Their inquiry centered on Frank Avellino, an accountant who had been funneling investors to Mr. Madoff since the 1960s.

The investigators did not get far. Within days, Mr. Avellino agreed to return to investors the money he and his partner had raised and to pay a small fine to the Securities and Exchange Commission. The inquiry petered out, and Mr. Avellino — represented in the case by Ira Lee Sorkin, the same lawyer who now represents Mr. Madoff — kept sending money to Mr. Madoff.

Now questions have again arisen about the ties between Mr. Madoff and Mr. Avellino. A lawsuit claims that Mr. Avellino warned his housekeeper, who had invested with him, that her money was lost 10 days before Mr. Madoff’s fraud became public.

Through his new lawyer, a former federal prosecutor, Mr. Avellino declined to comment on his relationship with Mr. Madoff.

But archived court documents from the 1992 case reveal numerous red flags that raise questions about the S.E.C.'s failure to examine Mr. Avellino and Mr. Madoff long before Mr. Madoff's apparent Ponzi scheme spread worldwide. The documents show that Mr. Avellino and Michael Bienes, his business partner, kept almost no records at Avellino & Bienes, a firm that oversaw $440 million. When court-appointed auditors asked Mr. Avellino to prepare a balance sheet, he responded that "my experience has taught me to not commit any figures to scrutiny."

Subsequently, Mr. Sorkin and Mr. Avellino managed to curtail the audit, even though a federal judge eventually concluded that Mr. Avellino had not been a credible witness in the case.

The S.E.C. also took at face value Mr. Avellino's depiction of the deal he offered investors, which guaranteed returns of up to 20 percent a year while requiring him and Mr. Bienes to make up any shortfalls.

It is unclear whether commission investigators even discussed the case with Mr. Madoff. His name does not appear in the agency's complaint, which referred only to an unnamed broker.

The government lawyers who handled the case are now in private practice. Richard Walker, then head of the S.E.C.'s New York office, is general counsel of Deutsche Bank. Kathryn Ashburgh, the lead lawyer on the case, works from her home in McLean, Va. And Keith W. Miller, a senior lawyer in the New York office, is a partner at Paul, Hastings, Janofsky & Walker. Through a spokesman, Mr. Walker declined to comment on the case. Mr. Miller and Ms. Ashburgh did not return calls.

Mr. Avellino did not respond to calls or visits to his homes in Nantucket, Mass.; Palm Beach, Fla.; and New York, or to messages left with his son Joseph Avellino in Chester, N.J. Gary Woodfield, the former federal prosecutor who represents Mr. Avellino, also declined to comment. Francis B. Brogan, a longtime lawyer for Mr. Avellino and a partner at Greenberg Traurig in Fort Lauderdale, Fla., asked that questions be e-mailed to him, then did not respond.

Mark Raymond, a lawyer for Mr. Bienes, said that his client had no knowledge of Mr. Madoff's fraud and had lost tens of millions of dollars, most of his savings, in the fraud. Mr. Bienes worked mainly as a fund-raiser, while Mr. Avellino actively managed Avellino & Bienes, according to court documents and people who knew the men.

Mr. Avellino has been connected to Mr. Madoff for his entire career. After graduating from the City University of New York in 1958, Mr. Avellino began working as an accountant at a firm run by Saul Alpern, Mr. Madoff's father-in-law.

Mr. Madoff also briefly ran his securities business from the firm's offices. As early as 1962, according to the S.E.C.'s complaint against him, Mr. Avellino began raising money for Mr. Madoff, who was running a small brokerage company. Mr. Bienes joined in 1965.

In 1977, Mr. Avellino and Mr. Bienes formed an accounting firm in Midtown Manhattan. Mr. Avellino owned half the company; the remainder was owned by Mr. Bienes and his wife, Dianne. In 1980, the Bieneses moved to Fort Lauderdale, while Mr. Avellino remained in New York.

The two men gradually shifted their focus from accounting to raising money for Mr. Madoff. Their business expanded until 1992, when the S.E.C. received marketing materials showing that Avellino & Bienes had promised investors annual returns of up to 20 percent. Commission officials said at the time that they believed they had stumbled upon a Ponzi scheme.

But when the investigators went to Mr. Avellino, they found, to their surprise, an apparently legitimate explanation. The money, $441 million from 3,200 clients, was being managed by Mr. Madoff, whose brokerage firm by then was one of the biggest stock traders on Wall Street. In a deposition, Mr. Avellino explained that he had promised returns of 13.5 to 20 percent a year. If Mr. Madoff fell short of producing those returns with his stock trades, Avellino & Bienes would make up the difference, Mr. Avellino said.

"If I was short and there was a shortfall, I would be in trouble," Mr. Avellino said in a deposition.

No one at the securities commission seems to have questioned why Mr. Avellino and Mr. Bienes offered clients a double-digit guaranteed return on money that they did not even control. Nor do the records offer any hint that the commission considered whether Mr. Madoff, rather than Avellino & Bienes, might be operating a Ponzi scheme.

Instead, once the commission was satisfied that the money existed in Mr. Madoff's accounts and would be returned, it quickly reached a deal with Mr. Avellino and Mr. Bienes. Through Mr. Sorkin, the lawyer who once oversaw the regulator's New York office, the men agreed to return the money to investors, shut down their firm, undergo an audit and pay a fine of $350,000.

So went the public version of the case presented by the agency. "There's nothing to indicate fraud," Martin Kuperberg, an administrator at the commission, told The Wall Street Journal on Dec. 1, 1992.

But court records reveal a much messier investigation. On Nov. 17, 1992, as part of the deal, a federal judge ordered Price Waterhouse to audit the financial statements of Avellino & Bienes.

The accountants soon learned that Avellino & Bienes did not keep conventional books, only the basic ledgers necessary to prepare tax records. Price Waterhouse then asked Mr. Avellino to put together records for 1992. He declined.

"My experience has taught me to not commit any figures to scrutiny when, as in this case, it can be construed as 'bible' and subject to criticism," Mr. Avellino wrote somewhat ungrammatically. "In this present instance, quite severely. I explained how the profit and loss can be computed from the records you now hold in your possession that Bernard L. Madoff and I supplied."

Even after learning of the missing records, the commission did not reopen its investigation.

The case then took an unusual turn. Mr. Avellino and Mr. Sorkin complained about Price Waterhouse's fees and demanded that federal Judge John E. Sprizzo, who was overseeing the case, quickly end the audit.

"I am not a cash cow, and I will not be milked," Mr. Avellino wrote in an affidavit.

By the end of January 1993, both the securities investigation and the Price Waterhouse audit were effectively over. But in a hearing over the disputed fees in April, Judge Sprizzo sharply criticized Mr. Sorkin, who acknowledged that Avellino & Bienes had agreed to the audit in part to avoid a deeper investigation.

"If you didn't consent to the audit, the commission could have pursued other remedies. They would have asked for a hearing, they would have asked for discovery," Judge Sprizzo said.

"That is true," Mr. Sorkin said.

Judge Sprizzo said he did not believe Mr. Avellino's testimony. Mr. Avellino "was worried about self-incrimination," the judge said. He ordered Avellino & Bienes to pay Price Waterhouse its bill of $428,679 in full.

In an interview, Mr. Sorkin said this week that he could not recall whether Mr. Madoff referred Mr. Avellino and Mr. Bienes to him. He has known Mr. Madoff since at least the early 1980s, he said, but did not represent Mr. Madoff at the time of the Avellino case.

After the settlement, Mr. Avellino and Mr. Bienes disbanded their firm. The Bieneses, who own a $7 million house in Fort Lauderdale, became philanthropists, contributing millions of dollars to Holy Cross Hospital in Fort Lauderdale and the Broward County Library. Mr. Avellino and his wife, Nancy, split their time between Nantucket, Manhattan and south Florida. In 2003, the Avellinos bought a $4.5 million house in Palm Beach less than five blocks from Mr. Madoff's house there. Their Manhattan apartment is similarly close to Mr. Madoff's apartment.

Through Mr. Brogan, his lawyer, Mr. Avellino set up a web of foundations and partnerships, including the Kenn Jordan Foundation. The foundation had $6 million in assets, at least some of which were invested with Mr. Madoff, and was nominally controlled by a man named Kenneth Jordan, who lived in a small Fort Lauderdale apartment.

Lola Kurland, who retired as the office manager for Avellino & Bienes, said in an interview that Mr. Jordan was a "personal friend" of Mr. Avellino. After Mr. Jordan died in 1999, the Kenn Jordan Foundation transferred its assets to Mr. Avellino's family foundation and was dissolved. But Mr. Avellino continued to use Mr. Jordan's name to raise money from investors, according to a lawsuit filed against him in state court in Nantucket last month.

His former housekeeper, Nevena Ivanova, alleges in that suit that Mr. Avellino raised $200,000 from her and her husband in September 2006 — and he directed her to make out her check to Kenn Jordan Associates, "a fictitious entity." In July 2008, Ms. Ivanova asked Mr. Avellino to return her investment, which at the time stood at $124,000. He put her off for months, according to the lawsuit. Then, on Dec. 1, 10 days before Mr. Madoff's Ponzi scheme became public, Mr. Avellino told Ms. Ivanova that her money had been lost.

The Talented Mr. Madoff

By JULIE CRESWELL and LANDON THOMAS Jr.

January 25, 2009

To some, Bernard L. Madoff was an affable, charismatic man who moved comfortably among power brokers on Wall Street and in Washington, a winning financier who had all the toys: the penthouse apartment in Manhattan, the shares in two private jets, the yacht moored off the French Riviera.

Although hardly a household name, he secured a longstanding role as an elder statesman on Wall Street, allowing him to land on important boards and commissions where his opinions helped shape securities regulations. Along the way, he snared a coveted spot as the chairman of a major stock exchange, Nasdaq.

And his employees say he treated them like family.

There was, of course, another side to Mr. Madoff, who is 70. Reclusive, at times standoffish and aloof, this Bernie rarely rubbed elbows in Manhattan's cocktail circuit or at Palm Beach balls. This Bernie was quiet, controlled and closely attuned to his image, down to the most minute details.

He was, for instance, an avid collector of vintage watches and took time each morning to match his wedding ring — he owned at least two — to the platinum or gold watch band he was wearing that day.

Per his directives, the décor in his firm's New York and London offices was stark. Black, white and gray — or "icily cold modern," as one frequent visitor to the New York operation described it.

Despite nurturing a familial atmosphere in his offices, he installed two cameras on the small trading floor of the firm's London operations so he could monitor the unit remotely from New York.

This Bernie also ran a money management business on the side for decades that he kept hidden far from colleagues, competitors and regulators.

While he managed billions of dollars for individuals and foundations, he shunned one-on-one meetings with most of his investors, wrapping himself in an Oz-like aura, making him even more desirable to those seeking access.

So who was the real Bernie Madoff? And what could have driven him to choreograph a $50 billion Ponzi scheme, to which he is said to have confessed?

An easy answer is that Mr. Madoff was a charlatan of epic proportions, a greedy manipulator so hungry to accumulate wealth that he did not care whom he hurt to get what he wanted.

But some analysts say that a more complex and layered observation of his actions involves linking the world of white-collar finance to the world of serial criminals.

They wonder whether good old Bernie Madoff might have stolen simply for the fun of it, exploiting every relationship in his life for decades while studiously manipulating financial regulators.

"Some of the characteristics you see in psychopaths are lying, manipulation, the ability to deceive, feelings of grandiosity and callousness toward their victims," says Gregg O. McCrary, a former special agent with the F.B.I. who spent years constructing criminal behavioral profiles.

Mr. McCrary cautions that he has never met Mr. Madoff, so he can't make a diagnosis, but he says Mr. Madoff appears to share many of the destructive traits typically seen in a psychopath. That is why, he says, so many who came into contact with Mr. Madoff have been left reeling and in confusion about his motives.

"People like him become sort of like chameleons. They are very good at impression management," Mr. McCrary says. "They manage the impression you receive of them. They know what people want, and they give it to them."

As investigators plow through decades of documents, trying to decipher whether Mr. Madoff was engaged in anything other than an elaborate financial ruse, his friends remain dumbfounded — and feel deeply violated.

"He was a hero to us. The head of Nasdaq. We were proud of everything he had accomplished," says Diana Goldberg, who once shared the 27-minute train ride with Mr. Madoff from their homes in Laurelton, Queens, to classes at Far Rockaway High School. "Now, the hero has vanished."

If, in the end, Mr. Madoff is found to have been engaging in fraud for most of his career, then the hero never really existed. Authorities say Mr. Madoff himself has confessed that he was the author of a longstanding and wide-ranging financial charade. His lawyer, Ira Lee Sorkin, declined to comment.

During the decades that Mr. Madoff built his business, he cast himself as a crusader, protecting the interests of smaller investors and bent on changing the way securities trading was done on Wall Street. To that end, like a burglar who knows the patrol routes of the police and can listen in on their radio scanners, he also actively wooed regulators who monitored his business.

"He once mentioned to me that he spent one-third of his time in Washington in the early 1990s, late 1980s," says a person who has known Mr. Madoff for years but requested not to be identified because he does not want to be drawn into continuing litigation. "He was very involved with regulators. I think they used him as a sounding board and he looked to them like a white knight."

"He was smart in understanding very early on that the more involved you were with regulators, you could shape regulation," this individual adds. "But, if we find out that the Ponzi scheme goes back that far, then he was doing something much smarter. If you're very close with regulators, they're not going be looking over your shoulders that much. Very smart."

MR. MADOFF spent his early years in Laurelton, a close-knit, Jewish enclave where he and his friends ate ice cream at the local five-and-ten and attended activities at the community center.

"It was an idyllic place to grow up in," recalls Vera Gitten, who attended elementary school with him. She remembers him as "very thin," a good student and extremely outgoing. She recalls a musical skit that he and his best friend wrote, rehearsed and performed for the class when they were in fifth or sixth grade.

"It was a broad company, sort of a 'Sheik of Araby' kind of thing where they wore costumes, which were their parents' bedsheets, that made them look like they were desert sheiks," Ms. Gitten says. "They would have us rolling."

None of Mr. Madoff's former elementary school friends could recall what his parents, Ralph and Sylvia, did for a living. According to Securities and Exchange Commission documents from the 1960s, it appears that his mother had a brokerage firm called Gibraltar Securities registered in her name with an address in Laurelton.

In 1963, the S.E.C. began investigating whether a number of firms, including Ms. Madoff's, had failed to file financial reports and whether that required revoking their registrations. Early the next year, Ms. Madoff withdrew her registration and the S.E.C. dropped its proceedings against her.

While Mr. Madoff's friends remember little about his parents, they all clearly recall his childhood sweetheart, and future wife, Ruth Alpern, a pretty, bubbly blonde who was voted "Josie College" by her Far Rockaway High School class.

Mr. Madoff, after graduating from high school in 1956, spent a year at the University of Alabama, where he joined Sigma Alpha Mu, a Jewish fraternity. A year later, he transferred to Hofstra University, where he graduated in 1960 with a degree in political science. He later became a Hofstra trustee, but the university never invested with him.

Mr. Madoff spent the next year at Brooklyn Law School, attending classes in the morning and running his side business — installing and fixing sprinkler systems — in the afternoon and evening, recalled Joseph Kavanau, who attended law school with Mr. Madoff. When Mr. Kavanau married his wife, Jane, who was Mrs. Madoff's best friend from Queens, Mr. Madoff was the best man.

"Bernie was very industrious," Mr. Kavanau explains. "He was going to school and working at the same time."

Mr. Madoff was never interested in practicing law, Mr. Kavanau says. Instead, Mr. Madoff left law school and, using $5,000 saved from being a lifeguard and from his sprinkler business, joined the ranks of Wall Street in the 1960s.

"For many years when we were first married, my wife and I would go to their house or we would all go out to dinner, maybe a couple of nights a month," said Mr. Kavanau, who says that the first home Mr. Madoff shared with his bride was a modest, one-bedroom apartment in Bayside, Queens.

Over the years, however, the two couples drifted apart. From time to time, Mr. Kavanau said he turned on the television and caught a glimpse of Mr. Madoff — now a successful financier — being interviewed, realizing that he had made his mark on Wall Street.

"The last time I saw him, we had run into him and Ruth on Worth Avenue in Palm Beach," Mr. Kavanau recalls. "We were definitely aware of how well he was living."

When asked if he can understand what happened, what may have motivated or prompted Mr. Madoff to eventually take such risks after building up a seemingly successful business, Mr. Kavanau paused.

"There is no way to. I can't make it add up. It doesn't make sense," he says, growing increasingly frustrated. "I cannot take the Bernie I knew and turn him into the Bernie we're hearing about 24/7. It doesn't compute."

WHEN Mr. Madoff arrived on Wall Street in the 1960s, he was an outsider. His small firm, Bernard L. Madoff Investment Securities, got its start by matching buyers of inexpensive "penny stocks" with sellers in the growing over-the-counter market. This hardscrabble market was made up of stocks that were not listed on the tonier New York Stock Exchange or American Stock Exchange.

In the O.T.C. market, it was common practice — and completely legal — for firms like Mr. Madoff's to try to attract big trades to their shop by offering to pay clients a penny or two for every share they traded. His firm would make money by pocketing the difference in the "spread," or the gap between the offering and selling price for the stocks.

During the mid-1970s, when changes in the rules allowed his firm and others like it to trade more expensive and more prestigious blue-chip stocks, Mr. Madoff began gaining market share from the Big Board.

"He was a man with a good idea who was also a terrific salesman," says Charles V. Doherty, the former president of the Midwest Stock Exchange. "He was ahead of everyone."

While completely legitimate, the practice of paying for trading orders was entirely distasteful to blue bloods on the established exchanges who saw the actions, ultimately, as a threat to their livelihood. Around this time, Mr. Madoff began cultivating key relationships with regulators.

"He was the darling of the regulators, without question. He was doing everything the regulators wanted him to do," says Nicholas A. Giordano, the former president of the Philadelphia Stock Exchange. "They wanted him to be a fierce competitor to the New York Stock Exchange, and he was doing it."

Current and former S.E.C. regulators have come under fire, accused of failing to adequately supervise Mr. Madoff and being too cozy with him.

Arthur Levitt Jr., who served as S.E.C. chairman from 1993 to early 2001, has acknowledged that he occasionally turned to Mr. Madoff for advice about how the market functioned. But Mr. Levitt strongly denies that Mr. Madoff had undue influence at the S.E.C. or that the agency's enforcement staff deferred to him.

Mr. Levitt said that he was unaware that Mr. Madoff even ran an investment management business, and that Mr. Madoff never had special access to him or other S.E.C. officials. He also noted that he and Mr. Madoff opposed one another on several key industry issues.

"The notion that Madoff came to my office many times is a fiction," Mr. Levitt says. "And the notion that he did my bidding is so fantastic that it defies belief."

Mr. Madoff's firm was an early adopter of new trading technologies. And, during the early 1990s, he served three one-year stints as head of the Nasdaq, an electronic exchange that has competed vigorously and won market share from brick-and-mortar exchanges like the Big Board.

Despite this flair for the experimental, Mr. Madoff routinely told his employees to adopt the mantra "KISS," or "keep it simple, stupid." He was, after all, a man of precise and controlled habits. He smoked Davidoff cigars and, in London, tailored his suits at Kilgour on Savile Row and bought many of his watches at Somlo Antiques.

Associates and others acquainted with him said his punctilious ways sometimes veered into obsessive-compulsive behavior. His office, for example, always had to be immaculate.

According to a former employee, who requested anonymity because of continuing litigation and because, he said, regulators have told Madoff employees not to speak to the media, Mr. Madoff scouted the office for potential filth. Once, when he spotted an employee eating a pear at his desk in New York, this person said, Mr. Madoff spied some juice dripping onto the gray carpet.

"What do you think you are doing?" this person recalls Mr. Madoff demanding. Eating a pear, the employee replied. Mr. Madoff ripped the soiled carpet tile from the floor, then rushed to a closet to retrieve a similar swatch to replace it.

Julia Fenwick, who was the office manager for Mr. Madoff's London operation from 2001 until the unit was shuttered in December, said that "everything had to be perfect" and that "you never left paper on your desk — ever."

Although he visited the London office only a couple of times a year, usually on the way to his vacation home in France, Mr. Madoff still reveled in micromanaging everything there, including the office décor.

The London unit recently finished spending about $700,000 for a refurbishment that recreated the black and gray palette of Mr. Madoff's New York office and his private jet, Ms. Fenwick says. The result was office furniture made from black ash, black trimming on gray walls, black computers, black mouse pads and even a black refrigerator on the trading floor.

But former employees and friends say Mr. Madoff's obsession with order and control of his environment never led them to believe that deeper problems were afoot.

"He appeared to believe in family, loyalty and honesty," said one former Madoff employee, who asked to remain anonymous because of the continuing litigation and investigations. "Never in your wildest imagination would you think he was a fraudster."

Despite all of the easy money that rolled into Mr. Madoff's firm for much of its existence, financial pressures began to emerge there during the last several years after Wall Street changed the way securities were priced and as new competition emerged.

In his asset management business, however, Mr. Madoff continued to haul in fresh rounds of money from unsuspecting investors hungry for the predictable and handsome returns he booked year after year, without missing a beat.

Employees who were veterans in the New York and London offices were even allowed to invest with Mr. Madoff, according to people who worked at the firm. Some employees are said to have given Mr. Madoff a large portion of their life savings — all of which now appears to be gone.

Like so many others who invested with him, his employees weren't lured to his funds simply by a promise of outsize returns. Rather, they say, they sought the security of investing with a man they knew and trusted. The Bernie they thought they knew.

Mr. Madoff's confidence reminds J. Reid Meloy, a forensic psychologist, of criminals he has studied.

"Typically, people with psychopathic personalities don't fear getting caught," explains Dr. Meloy, author of a 1988 textbook, "The Psychopathic Mind." "They tend to be very narcissistic with a strong sense of entitlement."

All of which has led some forensic psychologists to see some similarities between him and serial killers like Ted Bundy. They say that whereas Mr. Bundy murdered people, Mr. Madoff murdered wallets, bank accounts and people's sense of financial trust and security.

Like Mr. Bundy, Mr. Madoff used a sharp mind and an affable demeanor to create a persona that didn't exist, according to this view, and lulled his victims into a false sense of security. And when publicly accused, he seemed to show no remorse.

Television footage of Mr. Madoff entering his apartment building on East 64th Street at Lexington Avenue after federal authorities charged him with fraud in December doesn't seem to show a man exhibiting any sorrow or regret. With a battery of reporters asking him whether he felt remorse, he declined to respond and pushed his way into his building. (Thus far, his only public apology has apparently been in letters left in his lobby for fellow tenants who suffered through the media circus outside their building.)

To some extent, analysts of criminal behavior say, defining Mr. Madoff is complicated by the wide variety of possible explanations for his scheme: a desire to accumulate vast wealth, a need to dominate others and a need to prove that he was smarter than everyone else. That was shown, they say, in an ability to dupe investors and regulators for years.

Like the former F.B.I. agent Mr. McCrary, Dr. Meloy cautions that he has not met Mr. Madoff and can't make a clinical diagnosis. Nevertheless, he says individuals with psychopathic personalities tend to strongly believe that they're special.

"They believe 'I'm above the law,' and they believe they cannot be caught," Mr. Meloy says. "But the Achilles' heel of the psychopath is his sense of impunity. That is, eventually, what will bring him down."

He says it makes complete sense that Mr. Madoff would have courted regulators, even if he ran the risk of exposing his own actions by doing so.

"In a scheme like this, it's very important to keep those who could threaten you very close to you," Dr. Meloy explains. "You want to develop them as allies and shape how they go about their business and their attitudes toward you."

Indeed, if it is shown that Mr. Madoff fooled regulators for decades, that would have been a "heady, intoxicating" experience and would have fueled a sense of entitlement and grandiosity, Mr. McCrary says.

And by reeling in people from the Jewish community, from charities, from public institutions and from prominent and relatively sophisticated investor networks worldwide, Mr. Madoff wreaked havoc on many lives.

That's why Mr. McCrary says it's not too far-fetched to compare Mr. Madoff to serial killers.

"With serial killers, they have control over the life or death of people," Mr. McCrary explains. "They're playing God. That's the grandiosity coming through. The sense of being superior. Madoff is getting the same thing. He's playing financial god, ruining these people and taking their money."

JP Morgan Exited Madoff-Linked Funds Last Fall

By CLAUDIO GATTI and DIANA B. HENRIQUES

January 29, 2009

JPMorgan Chase says that its potential losses related to Bernard L. Madoff, the man accused of engineering an immense global Ponzi scheme, are "pretty close to zero." But what some angry European investors want to know is when the bank cut its exposure to Mr. Madoff — and why.

As early as 2006, the bank had started offering investors a way to leverage their bets on the future performance of two hedge funds that invested with Mr. Madoff. To protect itself from the resulting risk, the bank put $250 million of its own money into those funds.

But the bank suddenly began pulling its millions out of those funds in early autumn, months before Mr. Madoff was arrested, according to accounts from Europe and New York that were subsequently confirmed by the bank. The bank did not notify investors of its move, and several of them are furious that it protected itself but left them holding notes that the bank itself now says are probably worthless.

A spokeswoman, Kristin Lemkau, said the bank withdrew from the Madoff-linked funds last fall after "a wide-ranging review of our hedge fund exposure." Ms. Lemkau acknowledged, however, that the bank also "became concerned about the lack of transparency to some questions we posed as part of our review."

Investors were not alerted to the move because, under sales agreements, the issues did not meet the threshold necessary to permit the bank to restructure the notes, she said. Under those circumstances, she added, "we did not have the right to disclose our concerns."

That doesn't satisfy some investors. As they see it, they were the first people who should have been alerted to the bank's concerns. "Instead, we continued to pay our fees to the bank and remained the only ones exposed to the risks that JPMorgan did not want to assume," said the chief asset manager of an Italian investment firm, who declined to be identified because of potential litigation.

The tale began several years ago when a unit of JPMorgan Chase in London issued a series of complex derivatives that gave investors a way to triple their bets on the Fairfield funds, whose solid consistency mirrored the track record that had quietly — and ruinously — drawn investors to Mr. Madoff for decades.

Leveraged notes issued by big banks like JPMorgan Chase and Nomura became conduits through which fresh money flowed from institutional investors into the Fairfield Sentry and the euro-based Fairfield Sigma funds, both run by the Fairfield Greenwich Group — and, in turn, into Mr. Madoff's hands.

The arrangement worked like this: Investors put up cash to buy the notes from the bank. In return, the bank promised to pay them up to three times the future earnings of the Fairfield funds. When the notes matured in five years, assuming the funds did well, these investors would get more than if they had invested in the funds directly. The bank collected just under 2 percent in fees, investors said.

And because the bank had to hedge its entire risk, it put up to three times the face amount of the notes into the Fairfield funds. Thus, Fairfield Greenwich got more cash to manage than it otherwise would have, increasing its own fee income. To reward note-holders for making that possible, Fairfield paid them a so-called rebate of a fifth to a third of a percentage point a year, according to documentation of those transactions.

The first sign of trouble came in early October, when Fairfield Greenwich notified investors that it would no longer pay them rebates.

The reason, according to the Italian asset manager, was that JPMorgan Chase had "suddenly cashed out" of the Fairfield funds. "The official explanation was that there had been a strategic decision to get out of all hedge funds," the asset manager said. "The Fairfield official was quite upset."

Several other European money managers said they were told the same thing.

A spokesman for Fairfield Greenwich declined to comment on the bank's actions last fall, citing restrictions imposed by the beleaguered firm's lawyers.

Given the turbulent times, the Italian asset manager said he thought the bank urgently needed to raise cash. That seemed the only way to explain why the bank would pull out of a fund that was up 5 percent when other major market indexes were down 30 percent, he added.

A source close to JPMorgan Chase, however, recalled bank officials saying that the bank's "due-diligence people had too many doubts" about the performance of the underlying funds.

"They felt the consistency of its performance wasn't any longer credible" given the downturn in the overall market, the source said. He added: "Just three months before that, I remember that they were ready to issue more notes."

Some investors now note that Mr. Madoff maintained several accounts with

JPMorgan Chase, and wonder if the parent bank saw trouble brewing in those accounts and got its London affiliate out of Fairfield before the storm hit.

The Italian asset manager's colleague, the firm's chief institutional adviser, said, "Since I heard about Madoff's arrest, I have been wondering if it was just a tremendous stroke of luck — or if there was something JPMorgan in New York knew that led London to cash out." Told on Tuesday about the bank's explanation for its move, he added, "Now that I know why they say they got out, my doubts increase."

Did the bank use its access to the Madoff checking accounts to detect trouble before his arrest? "Absolutely not," Ms. Lemkau said.

In any case, banking authorities say there is nothing wrong with a bank looking into a customer's checking account to get information for its other lines of business.

"It is routine for the bank to look into your checking account if you apply for a loan — so why couldn't they look into your account if someone else applies for a loan whose risks are tied up with you?" said Stuart I. Greenbaum, a banking specialist who is the retired dean of the Olin Business School at Washington University in St. Louis.

He added, "Still, I suspect that's worth a lawsuit somewhere."

One of the key tests in court would be whether investors could show that they were harmed by anything the bank did or failed to do last fall, or whether any other course of action would have simply made things worse, said Charles Mooney Jr., a law professor at the University of Pennsylvania. "If I were the bank's lawyer, those are the questions I'd ask — and the answers are far from clear," he said.

Investors say the bank should have done a better job of investigating the Fairfield funds before it issued the notes. Another European investment manager, who also declined to be identified because of potential litigation, says he decided to purchase the notes for his clients partly on the strength of the bank's reputation.

He said that when he saw JPMorgan Chase "put its brand name" on the Fairfield notes, "I thought that there was no more reason to remain cautious." He added, "For me, the JPMorgan notes were the final imprimatur of Sentry's financial soundness."

What has upset him and other investors interviewed about their stake in the notes is that they did not know that JPMorgan Chase had already exited from Fairfield, almost unscathed, without notifying them.

"We looked at the prospectus and concluded that they had no obligation to do that," the Italian asset manager said. "But I certainly expected it, after such an unusual move."

After JPMorgan started pulling out of Fairfield, with credit markets in disarray everywhere, the quoted price of the notes fell by about 12 cents on the dollar, a discount that discouraged some investors from selling because the price seemed at such odds with the Fairfield Sentry fund’s continued good performance.

An executive with a Swiss financial advisory firm said that he had placed an order to redeem some notes at the end of October. But when he found out how low the quotes were, he said, “I immediately placed a stop to the withdrawal — a decision that, after Madoff’s arrest, I haven’t stopped regretting.”

His regrets seem to be justified. Some buyers of the notes face the loss of their entire investment.

In a letter dated Dec. 31, 2008, Timothy R. Hailes, a managing director and associate general counsel for the bank in London, notified investors that Mr. Madoff had been arrested and that his firm was being liquidated by regulators. These events activated provisions in the terms of the notes that allowed the bank to substitute some other asset for the Fairfield funds, which “may have a considerable impact on the value and the amount payable” to investors, according to those contracts.

Investors said that the bank had not provided any further information about their potential losses, even when asked for updates. “As of today, I still do not know if JPMorgan attributes any value to those notes,” said one European money manager.

About two-thirds of the Fairfield-linked notes the bank issued were guaranteed against principal loss, according to the bank. But the bank said the owners of the remaining notes, like all the investors cited here, had probably lost their entire stake. That would mean a loss the bank puts at about $30 million but that investors say could be much larger.

“We believe the notes that are not guaranteed are now valued at zero,” said Ms. Lemkau, although investors “could reach some recovery through bankruptcy proceedings.” In any case, she added, “The risks were fully explained to clients in the purchase agreements.”

If the bank had withdrawn almost $250 million directly from Mr. Madoff’s firm, Bernard L. Madoff Investment Securities, the bank would be subject to federal bankruptcy rules that give the court-appointed trustee leeway to recover money paid out over the previous year and use it to repay creditors. It is less likely that a similar withdrawal from Fairfield Greenwich would be within the trustee’s reach, but the question is certain to be posed in litigation, several lawyers said.

“I would consider it a probable development,” said the source close to JPMorgan Chase. “Especially with a redemption so close in time to Madoff’s arrest.”

This article was a joint investigation by The New York Times and the Italian business daily Il Sole 24 Ore. Claudio Gatti is an investigative reporter for the Italian paper, based in New York.

At Madoff Hearing, Lawmakers Lay Into S.E.C.

By DIANA B. HENRIQUES

February 5, 2009

WASHINGTON — Securities regulators could not cool the white-hot Congressional fury on Wednesday over their failure to act on tips that might have exposed the Madoff scandal almost a decade ago.

At a contentious hearing by a House Financial Services subcommittee, Harry Markopolos, a private fraud investigator from Boston, detailed his persistent but futile efforts to spur the Securities and Exchange Commission to investigate Bernard L. Madoff, going back to 1999.

Mr. Madoff was arrested in December and charged with running a giant Ponzi scheme — the very accusation Mr. Markopolos said he made repeatedly to S.E.C. employees in Boston and New York to no avail.

Lawmakers spent the rest of the hearing in a heated dialogue with senior S.E.C. staff members, getting little satisfaction and suggesting the agency was the problem.

In the torrent of criticism that Mr. Markopolos and lawmakers heaped on the S.E.C. and its senior staff members, some complaints were serious — that the agency lacked the expertise to tackle major frauds by big players and had no systematic way of dealing with whistle-blowers. Others were sarcastic, with Mr. Markopolos saying regulators seated in Fenway Park in Boston would have trouble finding first base.

The agency's officials repeatedly tried to explain that they could not discuss the handling of the Madoff case without jeopardizing that pending investigation — and were repeatedly cut off by lawmakers who demanded specific information about the handling of the case.

Representative Paul E. Kanjorski, Democrat of Pennsylvania and the hearing chairman, criticized the official position as an expression of arrogance that he said was at the root of the agency's regulatory failures.

Congress is in the midst of creating regulatory changes that could change the agency's fate, Mr. Kanjorski warned the panel of official witnesses. Lawmakers want immediate candor about the handling of the Madoff matter, not generalities, he said.

But the hearing became a collision of frustrations that, at one point, prompted Mr. Kanjorski to accuse the staff members of refusing to cooperate with a branch of government that could wipe their entire agency off the regulatory map, if necessary.

Representative Gary L. Ackerman, Democrat of New York, was more blunt in his condemnation of the S.E.C. officials sitting before him: “We thought the enemy was Mr. Madoff. I think it is you.”

Mary L. Schapiro, the new chairwoman of the S.E.C., later released a letter to the subcommittee’s senior members, conceding that the hearing “cannot have been satisfactory for you.” She asked to meet with them promptly to work out “a course forward” that would both provide accountability and maintain the integrity of continuing investigations.

“There needs to be a full accounting, both of Mr. Madoff’s activities and why we did not detect the fraud, which we truly regret,” she said.

The hearing had opened with Mr. Markopolos telling the panel he had discovered another possible fraud, a $1 billion Ponzi scheme, that he would report to regulators on Thursday. Neither he nor his lawyers would provide any additional details.

Mr. Markopolos also said he would tell regulators about a dozen private foreign funds — which he said were “hiding in the weeds” in Europe — that raised money for Mr. Madoff and had sustained major losses.

These funds have not yet been publicly identified, he said. And their silent victims most likely include investors of “dirty money,” including Russian mobsters and Latin American drug cartels, he said — although he acknowledged that he did not have specific information about such investments.

A lawyer for Mr. Markopolos said later that his client would make his reports to the S.E.C. inspector general, with whom he will meet on Thursday, and “through other channels.”

Linda Chatman Thomsen, the S.E.C. enforcement director, told lawmakers that the agency staff had demonstrated its willingness and ability to pursue major fraud cases, including 70 Ponzi schemes. Still, it missed opportunities to zero in on Mr. Madoff, who was arrested Dec. 11 at his New York apartment and charged with operating a Ponzi scheme whose losses he put as high as $50 billion, according to the civil and criminal complaints against him.

Ms. Thomsen said the agency, under Ms. Schapiro, would work hard to improve its receptiveness and responsiveness to whistle-blowers like Mr. Markopolos. But her responses did not seem to satisfy any of the half-dozen lawmakers who stayed at the hearing after Mr. Markopolos left.

They had been far more riveted by Mr. Markopolos’s testimony, which at times seemed to enter verbal territory more often explored at organized crime hearings. He referred to his fear that he would be killed if Mr. Madoff learned of his investigation. At one point, noting his experience in military intelligence, he described an offer he made to “go undercover” for the S.E.C. — a proposal that was rebuffed.

And he recalled wearing gloves as he assembled a package of information he planned to slip to Eliot Spitzer, when he was New York’s attorney general, so he would leave no fingerprints.

While one lawmaker asked whether this all wasn’t “a little paranoid,” others agreed that Mr. Markopolos was wise to be cautious, given the scale of the fraud he was trying to bring to light.

More Names of Note Appear on Madoff List

By DIANA B. HENRIQUES

February 6, 2009

There was a time — was it only two months ago? — when people would have been proud to be on a list of Bernard L. Madoff's customers. They had made the cut, and their money was getting the Madoff touch, growing steadily and solidly in good times and bad.

There they would be, among boldfaced names from the real estate world, the sports community, the arts and the corner offices of American business.

Today that list is an exhibit in Federal Bankruptcy Court in Manhattan, part of the paperwork documenting the annihilation of Mr. Madoff's magic and his customers' money. The boldfaced names have become red-faced, angry and perhaps embarrassed to find themselves caught in what prosecutors say is by far the largest Ponzi scheme in modern history.

According to the criminal charges filed when he was arrested on Dec. 11, Mr. Madoff himself confessed that investors' losses could be as high as $50 billion, with the victims ranging from hedge funds to housekeepers. The many thousands of everyday investors who have lost all the savings entrusted to Mr. Madoff will get no comfort from knowing that they may be able to commiserate with a formidable senator from New Jersey, an Oscar-nominated actor, a notable Broadway producer and a respected novelist.

A family grieving its six-figure inheritance will not be any less bereft for knowing that losses may also have been suffered by the heirs of the singer and composer John Denver and the motion picture legend Irving Thalberg.

But that probably will not stop everyone remotely interested in the disastrous Madoff scandal from taking a minute (well, maybe more than a few minutes) to troll for A-list names on the M-list.

In oddly democratic fashion, each of the 13,567 customer accounts, 84 of them per page, is rendered in tiny type and alphabetized by first name.

So an account attributed to Harold A. Thau, the theatrical producer who represented John Denver and helped produce a string of Broadway hits (including, fittingly, David Mamet's "Glengarry Glen Ross") is among the H's, not the T's.

The list can be somewhat misleading. Many of its names are merely trustees or agents for those who actually lost money, not the victims themselves. And some of the names may not belong there at all, as the trustee acknowledged in a statement on his Web site, www.madofftrustee.com.

Still, the flawed roster is the first step in verifying the legitimate claims against the Madoff estate, which currently has assets of about $950 million.

According to the trustee, the list includes about 8,000 names gleaned from Mr. Madoff's records — meaning an error or two should not surprise anyone — as well as names of people who reached out to the trustee to say they thought they were customers and wanted to submit a claim.

Quibbles about its accuracy aside, the roster sweeps across an eclectic swath of American life and achievement.

Although her accounts could not be confirmed, Barbara Gladstone, a prominent New York art gallery owner, is on the list. So is Sandy Koufax, the Hall of Fame pitcher.

There in the A's is Abby Frucht, a novelist based in Oshkosh, Wis., whose elderly parents opened the Madoff accounts and put her in charge.

In the B's, you will find Burt Resnick, the landlord for the occupants of more than five million square feet of New York City real estate, whose spokesman confirmed he was a Madoff client.

He is one of a notable roster of New York real estate developers and owners who have acknowledged losing money with Mr. Madoff, including Fred Wilpon, owner of the New York Mets, and Anthony Westreich, a significant property owner whose family built up much of Rosslyn, Va., in suburban Washington.

The list includes the artistic management company owned by Mr. Thau, the Broadway producer, although the accuracy of those accounts could not be confirmed. His firm's address also is given for accounts supposedly belonging to John Denver Concerts Inc., Ann Denver, the actor John G. Malkovich and the estate of Katherine Thalberg, the movie legend's daughter.

A spokesman for Senator Frank Lautenberg, Democrat of New Jersey, confirmed that the senator and his family foundation lost money with Mr. Madoff. The list includes the names of two of his children, who could not be reached for confirmation.

A number of prominent lawyers are on the list, including the estate of the late Howard Squadron, whose clients included the media giant Rupert Murdoch.

But the most eye-catching legal name may be Mr. Madoff's own lawyer, Ira Lee Sorkin, who is shown with an individual account and as the agent for accounts for his parents, both dead.

Finally, the list includes an account attributed to the author Idee Schoenheimer, whose co-author on a cookbook called “Great Chefs of America Cook Kosher” was Ruth Madoff, Mr. Madoff’s wife.

Contributing reporting were Alison Leigh Cowan, Christine Haughney, Jack Healy, Nancy Kenney, Tom Torok, Robert Gebeloff and Mary Williams Walsh.

Madoff in Partial Settlement With S.E.C.

By DIANA B. HENRIQUES

February 16, 2009

Days before a deadline in his criminal case, Bernard L. Madoff has agreed to a partial settlement of civil accusations that he ran a $50 billion Ponzi scheme.

The settlement with the Securities and Exchange Commission, disclosed at midday Monday, does not affect the criminal securities fraud charges that were also filed against Mr. Madoff on Dec. 11.

But Wednesday is the latest deadline for federal prosecutors either to file a formal indictment against Mr. Madoff or submit to a court hearing to explain why he was arrested.

The first deadline was extended last month at the request of the prosecutors, who notified the court that progress was then being made toward a "resolution" of the case.

Neither Marc O. Litt, the assistant United States attorney who is leading the prosecution, nor Ira Lee Sorkin, a lawyer for Mr. Madoff, would say Monday whether a second postponement was being discussed.

"As of now, Wednesday is still the day," Mr. Sorkin said.

But the limited settlement with the S.E.C. adds further weight to the thesis that negotiations for a plea bargain are gaining momentum, said John C. Coffee Jr., a securities law professor at Columbia.

Although the civil settlement includes the usual caveat that Mr. Madoff neither admits nor denies the charges in the regulators' civil case, it includes one other provision that would make it difficult now for Mr. Madoff to switch his strategy and force a trial.

Under those terms, for the purpose of determining his obligations to repay ill-gotten gains, interest and civil penalties, Mr. Madoff cannot dispute the accuracy of the S.E.C. charges filed against him.

Those charges accused him of operating a giant Ponzi scheme and asserted that he confessed his crime to two employees — his sons, as it turned out — and to the F.B.I. agent who arrested him.

That portion of Monday's agreement would pose serious difficulties for Mr. Madoff if he later tried to protest his innocence.

"This is a signal the defense side is ready to give a little," Professor Coffee suggested. "To give this, I suspect he got something in return. It would be interesting to know what.”

Mr. Sorkin declined to discuss any aspects of the negotiations that led to the partial settlement.

“It is a civil matter that has nothing to do with the matter that led to his arrest,” he said.

The partial settlement, which is subject to court approval, does not fully address the civil charges facing Mr. Madoff. For example, it does not establish an amount of civil penalties and restitution for defrauded investors.

But it does continue the asset freeze and injunctions against further fraud that were imposed on Mr. Madoff in December.

Since then, he has been free on $10 million bail but is confined to his Manhattan penthouse apartment under constant surveillance.

Madoff Never Made Supposed Investments

People waiting to enter a meeting of creditors of Bernard L. Madoff Securities in New York. (Ruby Washington/The New York Times)

By DIANA B. HENRIQUES

February 21, 2009

The clients who trusted Bernard L. Madoff still do not know exactly what he did with their money. But they know what he did not do with it: He did not buy any of those blue-chip stocks and Treasury bills listed on their account statements over the last 13 years.

The court-appointed trustee who is winding down Mr. Madoff's business said on Friday that his team had searched records going back almost to 1993 and found no evidence that any securities were bought for investors during that time.

That pattern probably stretches back even further, according to the trustee, Irving Picard of the law firm of Baker Hostetler. But his team, operating in a crime scene "under the watchful eyes of the F.B.I.," simply has not yet been able to dig back any further in the Madoff archives, he said.

His report, delivered at an emotional public meeting of creditors on Friday, demolishes the theory that Mr. Madoff was an honest man driven into fraud by the relentless market strain of recent years. And it raises the question of how all those fake statements and trade confirmations were generated in the absence of any genuine trading.

Mr. Picard said his team now has “a pretty good idea” of how that happened, but his lawyer, David J. Sheehan, said they could not disclose any of those details because of the continuing criminal investigation into whether others participated in the crime with Mr. Madoff.

These fresh details about the case were laid out to an intent and diverse audience that filled a courthouse auditorium in Lower Manhattan. Sweaters and flannel shirts were crowded next to lawyerly suits and expensive ties. Customers detailed hardships they or family members were suffering because of the Madoff collapse, and many expressed anger at regulators who had not stopped Mr. Madoff and lawmakers who they say have failed to respond to the disastrous aftermath of his fraud.

“This is a human tragedy like any other tragedy, and we should be getting help from the government like any other victims,” said one Madoff investor, who declined to give her name. “I lost my entire life savings that I worked for my entire life.”

Mr. Madoff was charged with securities fraud on Dec. 11 after confessing to family members that his money-management business was a fraud whose losses could be as high as $50 billion. His bail terms confine him to his apartment under 24-hour surveillance until his case is resolved by a trial or, more likely, by a guilty plea.

Meanwhile, investigators with the United States attorney’s office in Manhattan and the Securities and Exchange Commission are trying to piece together what Mr. Madoff did in the suite where he managed clients’ money, several floors below the legitimate stock-trading business that was the public face of Bernard L. Madoff Investment Securities.

That investigation has clearly made the trustee’s task more difficult. The luxury homes that secure Mr. Madoff’s $10 million bail cannot be touched by the trustee until the criminal case is resolved, and potentially helpful employees, facing questions from federal agents, have “lawyered up,” Mr. Sheehan said.

Moreover, he said, many of Mr. Madoff’s activities were in foreign countries, where the trustee must work with foreign regulators under different bankruptcy laws.

But claims requests have already come from 2,350 customers, claiming losses that Mr. Picard recalled as being “about $1 billion.” That reflects money those customers thought they had, he cautioned, not the amount they are eligible to receive. Mr. Picard said his team had excellent records of the cash that entered and left the firm.

By law, customers can claim only the difference between the total amount they deposited over the years and the total amount they took out — regardless of whether those amounts were returned as outright withdrawals or as payments the customer thought were regular interest or dividends. That unyielding arithmetic is embedded in the law that governs the insurancelike protection program for brokerage account customers, called the Securities Investor Protection Corporation, he said.

Although customers who received substantially more from their Madoff account than they put in may be required to return the excess money — a step called a clawback — the trustee and his lawyer repeatedly tried to reassure the audience that it would not be practical for them to seek clawbacks of small amounts from customers of limited means.

Customers with valid claims, however, can be assured of receiving repayment only up to $500,000 from the SIPC fund. Any additional money they are owed must come from dividing the assets the trustee can find — and he has found less than $1 billion so far.

Thus, an investor who put in $3 million and took out $2 million over the years would have a valid claim of $1 million. If the trustee raises enough cash to pay 10 percent of the total claims, that investor would eventually be given $600,000 — 10 percent of his original $1 million claim plus the insurance payment of $500,000.

Zachery Kouwe contributed reporting.

Madoff Goes to Jail After Guilty Pleas

By DIANA B. HENRIQUES and JACK HEALY

March 12, 2009

When Bernard L. Madoff entered a federal courtroom in Manhattan on Thursday to admit that he had run a vast Ponzi scheme that robbed thousands of investors of their life savings, he was as elegantly dressed as ever. But, preparing for jail, he wore no wedding ring — only the shadowy imprint remained of one he has worn for nearly 50 years.

He admitted his guilt for the first time in public, and apologized to his victims, dozens of whom were squeezed into the courtroom benches behind him, before being handcuffed and led away to jail to await sentencing.

"I knew what I was doing was wrong, indeed criminal," he said. "When I began the Ponzi scheme, I believed it would end shortly and I would be able to extricate myself and my clients."

But finding an exit "proved difficult, and ultimately impossible," he continued, stumbling slightly in his prepared remarks. "As the years went by I realized this day, and my arrest, would inevitably come."

Mr. Madoff acknowledged that he had "deeply hurt many, many people," adding, "I cannot adequately express how sorry I am for what I have done."

His testimony was shaped not only by expressions of regret, but also by his determination to shield his wife and family.

As a result, those who thought his guilty plea would shed more light on Wall Street's biggest and longest fraud left the courtroom unsatisfied and uncertain — about where their money had gone and who may have helped Mr. Madoff steal it. Indeed, the hearing made clear that Mr. Madoff is refusing to help the government build a case against anyone else.

Repeatedly, Mr. Madoff insisted that the stock-trading business run by his brother and two sons was entirely legitimate and untainted by his crime. That contradicted the criminal charges against him and statements made in court by Marc O. Litt, the federal prosecutor handling the case, who asserted that at times Mr. Madoff's firm "would have been unable to operate without the money from this scheme."

Mr. Madoff also claimed his fraud began in the early 1990s, not in the 1980s, as the government contends — an assertion that seemed to be aimed at limiting how far back into the family business history the government can reach for restitution.

No family members have been accused of any wrongdoing and they all — Mr. Madoff's wife, Ruth, his brother Peter and his sons, Mark and Andrew — have denied any knowledge of the fraud. But Mrs. Madoff is seeking to retain almost $65 million that she says are her own assets.

And when one of Mr. Madoff's victims urged a public trial to shed more light on the crime, Mr. Litt promised that the government was vigorously investigating what had happened to the money and who else had been involved — questions that could have been answered by Mr. Madoff, then and there, if he were willing.

"Did we get answers? Not at all," said George Nierenberg, an award-winning filmmaker, whose family lost most everything to Mr. Madoff.

Mr. Nierenberg was one of a handful of victims that Judge Denny Chin of Federal District Court allowed to speak at the hearing. As he went to the podium, he suddenly turned to the defendant and prodded him to "turn around and look at the victims."

For a moment, a startled Mr. Madoff did look at Mr. Nierenberg, before Judge Chin warned Mr. Nierenberg to address the court, not the defendant. "What I saw was a hollow, empty man," the filmmaker said later.

The inconsistencies between Mr. Madoff's version and the government's charges are evidence that no plea agreement could be reached, said Joel M. Cohen, a partner at Clifford Chance and a former federal prosecutor in Brooklyn.

"Clearly, he's light-years away from being cooperative," Mr. Cohen said after reviewing a transcript of the hearing. "Essentially, Madoff is saying, 'I'll plead guilty — but I'm not going to plead guilty to exactly what you say I did.'"

But Thursday's hearing probably is not the final forum for exploring Mr. Madoff's crime, several former prosecutors and defense lawyers said. Typically, shortly before sentencing, the court conducts what is called a Fatico hearing, where the government and the defense lawyers try to resolve factual disputes remaining in the case.

"While we do not agree with all the assertions made by Mr. Madoff today, these admissions certainly establish his guilt," said Lev L. Dassin, the acting United States attorney in Manhattan, in a statement after the hearing. "We are continuing to investigate the fraud and will bring additional charges against anyone, including Mr. Madoff, as warranted."

The 11 counts of fraud, money laundering, perjury and theft to which Mr. Madoff, 70, pleaded guilty carry maximum terms totaling 150 years. Sentencing was scheduled for June 16.

After Mr. Madoff's plea was accepted, his lawyer, Ira Lee Sorkin, tried to persuade Judge Chin to allow Mr. Madoff to remain free on bail, confined to his apartment on the

Upper East Side, until he was sentenced.

Judge Chin promptly refused.

“He has incentive to flee, he has the means to flee, and thus he presents the risk of flight,” Judge Chin said. “Bail is revoked.”

Mr. Sorkin said later that he intended to appeal that decision.

Some of Mr. Madoff’s victims began to applaud that ruling before Judge Chin cautioned them to remain silent. As Mr. Madoff’s hands were cuffed behind his back, some victims pointed and nodded with satisfaction.

And as he was led out of the paneled courtroom into an antiseptic tiled hallway, at least two of his victims were in tears.

“They are tears of relief,” explained Norma Hill of Armonk, N.Y., who sat in the first row of the courtroom. “It was a very courageous stand that the judge took. It has restored my faith in the justice system.”

Behind her, another woman, Adriane Biondo, of Los Angeles, wept with anger. Her family’s devastating losses have left elderly relatives “sick with fear,” she said. “It’s emotional — 120 cumulative years of hard work is gone.”

Raw emotion had been an undercurrent throughout the day, from the moment Mr. Madoff arrived at the courthouse, and was ushered into a 24th-floor courtroom that was already packed with lawyers and victims.

Mr. Madoff stood, was sworn in and reminded that he was under oath. Noting that he had waived indictment, Judge Chin asked, “How do you now plead, guilty or not guilty?”

“Guilty,” Mr. Madoff responded.

Mr. Madoff began to answer questions from Judge Chin about whether he understood the ramifications of his guilty plea.

At first, Mr. Madoff’s voice was barely audible as he answered the judge’s initial questions.

“Try to keep your voice up so that I can hear you, please,” Judge Chin said.

Finally, the judge said, “Mr. Madoff, tell me what you did.”

Mr. Madoff began: “Your honor, for many years up until my arrest on Dec. 11, 2008, I operated a Ponzi scheme through the investment advisory side of my business, Bernard L. Madoff Securities L.L.C.”

Mr. Madoff’s fraud became a global scheme that ensnared hedge funds, charities and celebrities. He enticed thousands of investors, including figures like Senator Frank Lautenberg of New Jersey, the Hall of Fame pitcher Sandy Koufax and a charity run by Elie Wiesel, the Nobel Peace Prize laureate.

The fraud's collapse erased as much as $65 billion that his customers thought they had. It remains unclear how much victims will recover.

A court-appointed trustee liquidating Mr. Madoff's business has so far been able to identify only about $1 billion in assets to satisfy claims.

Billions Withdrawn Before Madoff Arrest

By DIANA B. HENRIQUES and ZACHERY KOUWE

May 13, 2009

About $12 billion was pulled out of accounts at Bernard L. Madoff's firm in 2008, according to several people briefed on an analysis of Mr. Madoff's business records.

About $6 billion, or half, was taken out in just the three months before the financier was arrested in December and charged with operating an extensive Ponzi scheme, these people said.

Those figures offer a bit of hope for Mr. Madoff's thousands of defrauded customers. Under federal law, the trustee overseeing the Madoff bankruptcy can sue to retrieve that money from the investors who withdrew it.

Indeed, the trustee, Irving H. Picard of Baker & Hostetler, filed two lawsuits on Tuesday seeking the return of a total of $6.1 billion, which he estimated had been withdrawn over the last decade.

One case seeks the return of $5.1 billion from various trust funds and partnerships run by Jeffry M. Picower, a prominent Palm Beach, Fla., investor whose charitable foundation was considered one of the notable victims of Mr. Madoff's fraud.

Mr. Picard also sued to recover $1 billion withdrawn last year by Harley International, a hedge fund based in the Cayman Islands and administered by a unit of the Dutch bank Fortis.

Both lawsuits were filed in Federal Bankruptcy Court in Manhattan. And both assert that the defendants, as professional investors, should have realized that their profits were too high and too consistent — and Mr. Madoff's paperwork and procedures were too sloppy — to be legitimate.

But the complaint against Mr. Picower goes further, accusing him of participating in a web of transparently false transactions with Mr. Madoff that were aimed at compensating him for "perpetuating the Ponzi scheme" at the expense of other investors.

In 1999, for example, one of Mr. Picower's accounts posted an annual profit of more than 950 percent, the suit said. That account was one of two that reported annual returns from 1996 to 1999 ranging from 120 percent to more than 550 percent, the suit said.

In other accounts, backdated transactions generated billions of dollars of fictional year-end losses and one account grew by 30 percent in just two weeks in 2006 — thanks to trades that purportedly occurred months before the account was even opened.

A lawyer for Mr. Picower and his wife, Barbara, who was also named as a defendant, denied the allegations.

"Mr. and Mrs. Picower considered themselves friends of the Madoffs for over 35 years," said the lawyer, William D. Zabel of Schulte Roth & Zabel. "They were totally shocked by his fraud and were in no way complicit in it."

Mr. Zabel added: "They lost billions in personal assets, and most dear to them, all of the assets of their esteemed foundation." The Picower Foundation closed its doors after Mr. Madoff's arrest.

According to people familiar with the analysis of Mr. Madoff's cash records, most of the $12 billion that flowed out of his fraudulent money-management operation last year was withdrawn by various "feeder funds," which had raised cash from investors and pooled it to invest with Mr. Madoff.

Several of those feeder funds have already been the targets of lawsuits by Mr. Picard, who is searching for assets to be shared among customers who lost what they believed to be almost $65 billion in the Ponzi scheme.

It is not clear where the cash taken out of the Madoff accounts is located, or how much of it can be recovered through litigation.

In the lawsuit seeking to recover more than $1 billion withdrawn by Harley International, Mr. Picard asserts that the fund should have detected the fraud before investing more than $2 billion of its clients' money.

According to that complaint, Harley International made 14 transfers out of its Madoff account over the last six years, including $425 million that was withdrawn three months before the Ponzi scheme became public.

A spokeswoman for Harley International, Jamie Moss, did not return calls seeking comment.

In the complaint, Mr. Picard said Harley International, which invested client money with Mr. Madoff since at least 1996, received "unrealistically high and consistent annual returns" of about 13.5 percent. That outpaced the swings in the stock index on which Mr. Madoff had apparently based his trading strategy.

Trading records indicate that the Madoff firm, Bernard L. Madoff Investment Securities, made at least 148 stock trades in Harley International's account in the last decade at prices that did not match the trading range for those stocks on the dates the trades supposedly occurred.

Mr. Picard claims those trades should have raised red flags for “any investment professional managing the account.”

The Harley lawsuit is similar to one Mr. Picard has filed recently against J. Ezra Merkin, the New York financier who lost over $2 billion investing with Mr. Madoff.

The lawsuit against Mr. Picower mirrors similar allegations Mr. Picard made in a complaint against Stanley Chais, an investment manager and prominent Los Angeles philanthropist. Both investors have said they intend to fight the lawsuits.

Mr. Picard has raised about $1 billion in assets for Mr. Madoff’s victims, but the lawsuits filed in the last two weeks could push that number much higher.

Mr. Madoff pleaded guilty on March 12 to running the biggest Ponzi scheme in history. He is scheduled to be sentenced next month and faces 150 years in prison.

Madoff Is Sentenced to 150 Years for Ponzi Scheme

Sharon Lissaur, who invested with Bernard Madoff, says he "shattered my dreams" and lost her mother's inheritance. She spoke after he was sentenced Monday. (James Estrin/The New York Times)

By DIANA B. HENRIQUES

June 30, 2009

A criminal saga that began in December with a string of superlatives — the largest, longest and most widespread Ponzi scheme in history — ended the same way on Monday as Bernard L. Madoff was sentenced to 150 years in prison, the maximum for his crimes.

Mr. Madoff, looking thinner and more haggard than when he pleaded guilty in March, stood impassively as Federal District Judge Denny Chin condemned his crimes as "extraordinarily evil" and imposed a sentence that was three times as long as the federal probation office suggested and more than 10 times as long as defense lawyers had requested.

Though many questions still surround the case, the judge's pronouncement offered a brief sense of resolution, followed by a short burst of applause and one stifled cheer from the victims who filled the soaring Lower Manhattan courtroom.

Only a few moments before, Mr. Madoff had apologized for the harm he inflicted on the clients who had trusted him, his employees and his family. He blamed his pride, which would not allow him to admit his failures as a money manager.

"I am responsible for a great deal of suffering and pain. I understand that," he said, leaning slightly forward over the polished table, his charcoal suit sagging on his diminished frame.

"I live in a tormented state now, knowing of all the pain and suffering that I have created."

At the end of his personal statement, Mr. Madoff abruptly turned to face the courtroom crowd. He was no longer the carefully tailored and coiffed financier. His hair was ragged. His eyes were sunken into deep gray shadows. His voice was a little raspy, and he stopped on occasion to sip water.

"I am sorry," he said, and abruptly added: "I know that doesn't help you."

Nine victims, some choked by sobs or swiping at tears, told the court of the damage he had caused, describing him as a psychopath and a monster who had destroyed their lives.

"It feels like a nightmare that we can't awake from," said Carla Hirschhorn, a physical therapist who said her daughter was juggling two jobs in her junior year to help pay for college expenses that their lost savings were supposed to cover.

Michael Schwartz, who said Mr. Madoff had stolen money set aside to sustain his disabled brother, expressed the hope that "his jail cell will become his coffin."

In meting out the maximum sentence, Judge Chin pointed out that no friends, family or other supporters had submitted any letters on Mr. Madoff's behalf that attested to the strength of his character or good deeds he had done.

Mr. Madoff returned to his cell at the Metropolitan Correctional Center in Lower Manhattan while federal prison officials determine where he will serve his sentence. The defense has 10 days to decide whether to appeal the sentence.

Although Judge Chin suggested that Mr. Madoff be assigned to a prison in the Northeast, at the request of the defense, the judge said the Bureau of Prisons would decide what kind of facility will become his permanent home.

No members of Mr. Madoff's immediate family were in court.

In his statement, Mr. Madoff acknowledged the "legacy of shame" he has created for his family.

His wife, Ruth, later released a statement — her first since her husband's arrest — expressing her grief for the victims and her sense of shock and betrayal when she learned of the crime.

Mrs. Madoff has not been charged in the crime and insists that she did not know of it until her husband told her just before his arrest. But she acknowledged that her silence, imposed by lawyers protecting her own interests, “has been interpreted as indifference or lack of sympathy for the victims.” That, she added, “is exactly the opposite of the truth.”

She said she felt “devastated” by the harm her husband had done. “I am embarrassed and ashamed. Like everyone else, I feel betrayed and confused,” said Mrs. Madoff, who has forfeited all but $2.5 million in assets. “The man who committed this horrible fraud is not the man whom I have known for all these years.”

Many victims also accused regulators and lawmakers of betraying them for decades by failing to stop Mr. Madoff, and failing them again by not helping them deal with their financial hardships since they learned their savings had evaporated.

Judge Chin cautioned one speaker that those entities “are not before me,” but, in a larger sense, the Madoff case seemed to put an entire era on trial — a heady time of competitive deregulation and globalized finance that climaxed last fall in a frenzy of fear, panic and loss.

The blame has been spread wide — to arcane credit-default swaps, to lax enforcement of weak regulations, to poorly understood risks and badly managed financial institutions.

But with his arrest on Dec. 11, Mr. Madoff, a senior statesman in the private corridors of Wall Street who was respected for his vision and trusted by tens of thousands of customers, put a human face on those abstractions.

Mr. Madoff’s luxurious lifestyle, including a penthouse, yachts and French villa, all quickly became fuel for public outrage.

Every move in the case was closely watched, including his confession to his sons, Andrew and Mark, who were in his business; his guilty plea to 11 counts of various financial crimes in March; and his wife’s legal efforts to save some family assets from a sweeping government forfeiture.

The fury increased in January with Congressional testimony from a whistle-blower who had repeatedly alerted the Securities and Exchange Commission about his suspicion that Mr. Madoff was operating a gigantic fraud. An internal investigation is now under way at the S.E.C. to determine why the agency did not detect Mr. Madoff’s scheme and shut it down years ago.

The S.E.C. and the Securities Investor Protection Corporation, a government-chartered program to compensate customers of failed brokerage firms, were criticized repeatedly in the courtroom statements by the victims on Monday, and at a rally of victims held near the courthouse afterward.

The litigation already filed in and around the Madoff case will help shape how regulators, the courts and SIPC respond to large-scale Ponzi scheme losses in the future. How the losses of victims will be addressed is just one of many open questions.

The criminal investigation is continuing, as prosecutors try to determine who else bears responsibility for the crime. So far, only Mr. Madoff's accountant has been arrested on criminal charges, but securities regulators have filed civil suits against several of his long-term investors, accusing them of knowingly steering other investors into the fraud scheme for their own gain.

And the bankruptcy trustee has sued more than a half-dozen hedge funds and large investors, seeking to recover more than $10 billion withdrawn from the fraud in its final months and years. It is uncertain how much money he will be able to recover to share among the victims and how long that effort will take.

And the sentence itself is likely to leave a mark as well, according to legal experts on white-collar crime.

In remarks before announcing his decision, Judge Chin acknowledged that any sentence beyond a dozen years or so would be largely symbolic for Mr. Madoff, who is 71 and has a life expectancy of about 13 years.

But "symbolism is important for at least three reasons," he said, citing the need for retribution, deterrence and a measure of justice for the victims.

Judge Chin said he did not agree with the suggestion by Ira Lee Sorkin, Mr. Madoff's lead lawyer, that victims were seeking "mob vengeance" through a maximum sentence.

"They are placing their trust in the system of justice," he said, adding that he hoped the sentence he imposed would "in some small way" help the victims to heal.

Several former prosecutors called Judge Chin's decision somewhat surprising but appropriate.

"The judge sent a powerful deterrent message and an ominous signal to possible co-conspirators," said George Jackson III, a lawyer with Bryan Cave and a former federal prosecutor in Chicago.

Richard L. Scheff, a lawyer with Montgomery, McCracken, Walker & Rhoads and a former assistant secretary for law enforcement for the Treasury Department, said the magnitude of the sentence "demonstrates real concern for the harm caused by Madoff to so many victims."

He added, "Am I surprised? Yes, to a degree — but I strongly suspected that the sentence would be tantamount to a life sentence."

To Robert S. Wolf, with the law firm Gersten Savage, the sentence "sent a clear and resounding message that Judge Chin felt that Madoff had not come clean and told all about the enormity of his criminal activity and others who participated."

But James A. Cohen, an associate professor of law at Fordham, said he was troubled by the sentence. "I don't think symbolism has a very important part in sentencing," he said. "I certainly agree that a life sentence was appropriate, but this struck me as pandering to the crowd."

The victims who spoke in the courtroom were unanimous in their demand for a maximum sentence, saying that Mr. Madoff had forfeited his right to live in society. They pointed to the extent of the crime: a fraud that ensnared millionaires, private foundations, a Nobel Prize laureate and hundreds of small investors who lost their life savings to an investment guru they had trusted completely.

Burt Ross, who lost $5 million in the fraud, cited Dante's "The Divine Comedy," in which the poet defined fraud as "the worst of sin" and expressed the hope that, when Mr. Madoff dies — "virtually unmourned" — he would find himself in the lowest circle of hell.

Prosecutors said Mr. Madoff deserved the maximum term for carrying out one of the biggest investment frauds in Wall Street history. Mr. Madoff's lawyers said he should receive only 12 years.

After Mr. Madoff's victims finished speaking, his lawyer, Mr. Sorkin, said the government's request for a 150-year sentence bordered on absurd. He called Mr. Madoff a "deeply flawed individual," but a human being nonetheless. "Vengeance is not the goal of punishment," Mr. Sorkin said.

Even with a lesser term, Mr. Sorkin added, Mr. Madoff expects to "live out his years in prison."

Zachery Kouwe and Jack Healy contributed reporting.

Madoff Arrives at Federal Prison in North Carolina

By ZACHERY KOUWE

July 15, 2009

Bernard L. Madoff lived most of his life in spacious mansions and sun-drenched beachfront villas or aboard luxurious yachts.

On Tuesday, Mr. Madoff arrived at the Butner Federal Correctional Complex in a blue prison jumpsuit, his hands and feet shackled, to begin serving a 150-year prison sentence for orchestrating one of the largest frauds in history.

Inside its prison fencing, the complex, about 45 minutes northwest of Raleigh, N.C., may look like a sedate college campus. But its medium-security facility, where Mr. Madoff, 71, the former Wall Street financier, will initially live, is populated with violent criminals, drug dealers and gang members, most of them serving life sentences of their own. The Bureau of Prisons has projected a release date of Nov. 14, 2139, for Mr. Madoff, assuming he gets early release credit for good behavior.

"The problem is really not going to be Bernie Madoff; he will likely be a model inmate," said Edward S. Bales, who runs Federal Prison Consultants, which provides services to prospective inmates.

"It's going to be how the other inmates react to him. There will be people who were out of work and who have lost their homes and blame him for the economy, they may also be jealous and believe he has billions of dollars hidden somewhere."

After prison guards strip him of his clothing and conduct a full-body search, Mr. Madoff, now inmate No. 61727-054, will probably undergo an extensive mental health evaluation to determine whether he is a potential suicide risk.

Prison consultants said the Butner facility is known for housing criminals in need of mental health treatment. While officials evaluate his mental status, the onetime investment manager could be placed in solitary confinement, monitored day and night and allowed to leave his cell for only about an hour each day.

If prison psychologists determine Mr. Madoff's mental health is stable, he will be transferred into the general population, where he will live with other inmates in dormitory-style housing, be allowed to receive visitors several times a week and watch television or visit the gym.

Mr. Madoff’s lawyer had requested that he be kept in a federal prison in Otisville, N.Y., and Judge Denny Chin, who presided over the case, recommended that he stay in the Northeast. Federal prison guidelines mandate that inmates be held within 500 miles of their previous home, raising the possibility that Mr. Madoff could be transferred to a prison in the Northeast later.

Other inmates in Butner include John Rigas, founder of Adelphia Communications, and his son, Timothy, who were convicted of fraud in 2004. Both men are in the prison’s low-security facility, which houses inmates convicted of lesser crimes.

Butner also holds Randy Cunningham, the former California congressman, and Omar Abdel-Rahman, also known as the blind sheik, who was sentenced to life in prison in 1995 for his role in a plot to kill President Hosni Mubarak of Egypt and blow up New York City landmarks.

John Hinckley Jr., who tried to kill President Reagan, and the evangelist Jim Bakker also served time at Butner.

“He will survive, but it is not going to be an easy road,” Mr. Bales said.

Trustee Sues Ruth Madoff for Nearly $45 Million

By ZACHERY KOUWE

July 30, 2009

She lost the penthouse on New York's Upper East Side, the compound in Palm Beach, Fla., the home in Montauk on Long Island and the house in the south of France. The yacht, the Mercedes, the Russian sable coat, the Steinway piano — all gone.

But after forfeiting nearly $80 million in assets, Ruth Madoff, the wife of one of the biggest swindlers in Wall Street history, is being sued for millions more.

Irving H. Picard, the trustee who is trying to recover money for investors defrauded by Bernard L. Madoff, sued Mrs. Madoff on Wednesday for $44.8 million. Mr. Picard claimed Mrs. Madoff received tens of millions of dollars from her husband's investment firm, enabling her to live a "life of splendor."

Mrs. Madoff's lawyer, Peter A. Chavkin, said he was baffled by the suit and noted that she had not been implicated in the fraud. The authorities allowed her to keep $2.5 million — a small fraction of the fortune that her husband amassed while orchestrating a vast Ponzi scheme.

But Mr. Picard, in his complaint, claimed that Mrs. Madoff had no "good faith basis" to believe she was entitled to the money she received over the years from Bernard L. Madoff Investment Securities. Three days before Mr. Madoff confessed last December that his celebrated investment firm was in fact a fraud, Mrs. Madoff transferred $11 million from the firm's bank account to a real estate partnership in which she owned a stake, according to the complaint.

While Mr. Picard stopped short of saying that Mrs. Madoff was aware of the fraud, he said she nonetheless profited from financial ties to her husband's firm.

"Ruth Madoff was never an employee" of Bernard L. Madoff Investment Securities, "yet millions of dollars" belonging to the firm and its customers "found their way into her personal accounts and investments without any legitimate business purpose or any value" to the firm "simply because of her relationship with Bernard Madoff," Mr. Picard said in the complaint. Under federal bankruptcy law, Mr. Picard can seek to recover assets withdrawn from the company up to six years before it filed for bankruptcy. Mr. Chavkin, Mrs. Madoff's lawyer, called the lawsuit "perplexing" and "totally unjustified."

“Ruth already forfeited to the United States attorney’s office almost all of the assets named in this complaint,” Mr. Chavkin said in a statement. “We believe the trustee’s action is wrong as a matter of law and fairness.”

But in filing the suit, Mr. Picard moved to assert his right to the money under the bankruptcy code, in case an agreement with the United States attorney’s office to return Mrs. Madoff’s assets to Mr. Picard could not be reached. Mr. Picard contends the estate is entitled to a cash settlement instead of Mrs. Madoff’s actual assets. He may also try to reclaim the $2.5 million the government has allowed her to keep. In his investigation, Mr. Picard has identified several payments from Madoff’s London affiliate to Mrs. Madoff, including a $2.08 million transfer to her account at Wachovia Bank about two weeks before her husband was arrested.

Mr. Picard also identified payments that were made to investment partnerships partly owned by Mrs. Madoff, including the private equity firm Sterling Equities, which owns the New York Mets and Brooklyn Cyclones baseball teams, and the Delta Fund, the complaint states.

Mrs. Madoff received more than $3 million from the business over the last six years to pay personal expenses charged to her American Express card and $2 million in payments to a discount pet pharmacy Mrs. Madoff had invested in, PetCareRx.

“She received the benefit of the value of these items, forfeited or not, and the trustee is entitled to a money judgment for the amount of benefit conferred,” said David Sheehan of Baker & Hostetler, Mr. Picard’s law firm. “We are not seeking the actual items purchased.”

So far, the trustee has sued about a dozen entities and individuals, including overseas hedge funds, seeking about $14 billion in assets that were withdrawn from the Madoff firm before its collapse. At the end of June, Mr. Picard had recovered about $1.08 billion in assets. He told a bankruptcy judge overseeing the case that he was making “significant progress” in finding more. Victims have filed more than 15,400 claims to the Securities Investor Protection Corporation, the government-sponsored entity that pays up to $500,000 to customers of failed brokerage firms. According to the trustee, SIPC may be required to pay about $284 million.

Madoff Aide Reveals Details of Ponzi Scheme

By JACK HEALY and DIANA B. HENRIQUES

August 12, 2009

Frank DiPascali was a "kid from Queens" fresh out of high school when he landed a job in 1975 with a rising star on Wall Street named Bernard L. Madoff.

On Tuesday, Mr. DiPascali stood in a federal courtroom in Lower Manhattan and admitted that, for at least the last 20 years, he had helped Mr. Madoff carry out one of the biggest frauds in Wall Street history.

Indeed, he detailed for the first time how he and unidentified others helped Mr. Madoff perpetuate the crime — using historical stock data from the Internet to create fake trade blotters, sending out fraudulent account statements to clients and arranging wire transfers between Mr. Madoff's London and New York offices to create the impression that the firm was earning commissions from stock trades.

"I knew it was criminal, and I did it anyway," Mr. DiPascali told Judge Richard J. Sullivan, of Federal District Court, just before pleading guilty to 10 felony counts, including conspiracy and tax evasion.

But Judge Sullivan refused to release Mr. DiPascali on bail after his plea, despite a request by prosecutors that he remain free to better assist their complex wide-ranging investigations, a jolt to both the government attorneys and the defense lawyers.

Judge Sullivan said he was not persuaded that the bail terms — a $2.5 million bond agreement reached between the prosecution and defense lawyers — would ensure that Mr. DiPascali, who is 52, would show up for sentencing, which has been tentatively set for next May.

Mr. DiPascali, who had been one of Mr. Madoff's closest aides for decades, also said he would "dedicate all my energy to trying to explain to others how this happened" as a cooperating witness for federal prosecutors who are still investigating Mr. Madoff's vast crime, which left his clients bereft of almost $65 billion they thought was in their accounts.

Mr. DiPascali is facing up to 125 years in prison; his former boss was sentenced in June to 150 years. "The defendant has ample incentive to flee," the judge said, adding that the bail arrangements amounted to little more than "an honor system."

Marc L. Mukasey, defending Mr. DiPascali, repeatedly assured the judge that Mr. DiPascali knew his only hope for leniency was to cooperate. Indeed, Mr. Mukasey said, he has already earned the trust of prosecutors and investigators. Moreover, he said, Mr. DiPascali is part of a close and loving family, some of whom would incur significant losses if he were to flee before sentencing.

Marc O. Litt, the federal prosecutor, also urged the judge to accept the bail arrangement, explaining that Mr. DiPascali could be an extremely important guide through the labyrinthine records of the Madoff operations.

But Judge Sullivan rejected those arguments, concluding that someone facing a potential 125-year sentence might decide that no amount of cooperation could significantly reduce that prison term — and flee instead.

While he said he would consider a revised bail arrangement in the future, he ordered Mr. DiPascali to be jailed immediately. The former Madoff aide was led out of the courtroom in handcuffs, leaving behind a huddle of lawyers looking for a way to preserve his freedom to assist the investigation.

A few hints of how helpful his cooperation would be emerged on Tuesday, when he offered one of the most detailed accounts yet from inside the Midtown Manhattan office tower where Mr. Madoff ran his decades-long Ponzi scheme.

Mr. DiPascali described how he, Mr. Madoff and unidentified “other people” created fake account statements, shuffled money between bank accounts and perpetuated a years-long fairy tale that they were making money for clients of Bernard L. Madoff Investment Securities.

“No purchases or sales of securities were actually taking place in their accounts,” Mr. DiPascali said. “It was all fake. It was all fictitious. It was wrong, and I knew it was wrong at the time.”

And, from his account, keeping the scheme afloat and investors and regulators duped was a full-time job. To give the appearance that Mr. Madoff’s firm had mastered the markets, Mr. Madoff and his employees would track stock prices and then simply pretend to buy stocks whose trajectories matched the firm’s investment goals, Mr. DiPascali said.

They created and mailed out reams of account statements and trading slips for trades that had never taken place. Prosecutors said that the ruse extended as far as designing a fake computer stock-trading platform and using a random-number generator to assign times and amounts to trade records, so that no one would detect any pattern.

Equally intriguing details emerged in a civil lawsuit filed against Mr. DiPascali on Tuesday by the Securities and Exchange Commission, with which Mr. DiPascali has also agreed to cooperate.

For the first time, that complaint suggested that Mr. Madoff may have started his money-management business as a legitimate operation, investing money mostly for friends and family using arbitrage and stock-picking strategies.

But “at least as early as the 1980s,” the S.E.C. asserted, Mr. DiPascali was helping Mr. Madoff create fictitious trades to generate phantom returns for particular accounts — specifically, accounts set up by some early feeder funds, which steered money from other investors into Mr. Madoff’s hands.

Without admitting or denying guilt, Mr. DiPascali has agreed to a partial settlement with the commission. Mr. Mukasey said he was “happy the matter is resolved.”

Mr. DiPascali told the court on Tuesday that he wanted to apologize to every victim, adding: “I am very, very, very sorry.”

A graduate of Archbishop Molloy High School in Briarwood, Queens, Mr. DiPascali said he knew nothing about finance or Wall Street when he went to work for Mr. Madoff in 1975. He worked as a research analyst, an options trader and “a guy who basically did whatever I was told to do around the office.”

Over the years, he said he developed an allegiance to Mr. Madoff and thought of him as a mentor. “I was loyal to him,” Mr. DiPascali said. “I ended up being loyal to a terrible, terrible fault.”

Mr. Mukasey, his lawyer, said that while Mr. DiPascali was “1,000 percent guilty,” he had believed — before the Ponzi scheme crumpled — that Mr. Madoff could somehow repay his clients.

Mr. DiPascali is the third person to face criminal charges stemming from the long-running fraud. Besides Mr. Madoff, the accountant who had audited Mr. Madoff’s books, David G. Friehling, has been charged with securities fraud and aiding the investment adviser fraud. He has pleaded not guilty.

A Madoff Son Hangs Himself on Father’s Arrest Anniversary

The body of Mark Madoff was removed from his apartment building in Manhattan Saturday afternoon. (Hiroko Masuike for The New York Times)

By DIANA B. HENRIQUES and AL BAKER

December 11, 2010

Mark Madoff, the older of Bernard L. Madoff’s two sons, hanged himself in his Manhattan apartment on Saturday, the second anniversary of his father’s arrest for running a gigantic Ponzi scheme that shattered thousands of lives around the world.

“Mark Madoff took his own life today,” Martin Flumenbaum, Mark Madoff’s lawyer, said in a statement. “This is a terrible and unnecessary tragedy.” He called his client “an innocent victim of his father’s monstrous crime who succumbed to two years of unrelenting pressure from false accusations and innuendo.”

According to Deputy Police Commissioner Paul J. Browne, officers responded to a 911 call made just before 7:30 Saturday morning from Mr. Madoff's apartment building at 158 Mercer Street. Mr. Browne said Mr. Madoff's body was found hanging from a black dog leash attached to a metal beam on the living room ceiling. He said there was no evidence of foul play.

Mr. Madoff's 2-year-old son was asleep in an adjoining bedroom, Mr. Browne said.

Law enforcement officials said Mr. Madoff had sent e-mails to his wife in Florida sometime after 4 a.m. Saturday. "It was more than one," said an official, who added: "He basically tells his wife he loves her and he wants someone to check on the child."

Mr. Browne said the body was discovered by Martin London, a prominent New York lawyer who is the stepfather of Mark Madoff's wife, Stephanie. Mr. London apparently had gone to the apartment in response to the message to check on the child. Reached by phone, Mr. London declined to comment.

A person in close contact with the family who had spoken with Mark Madoff frequently in the last few weeks said he had been in "an increasingly fragile state of mind" as the anniversary of his father's arrest approached. The person said Mr. Madoff had expressed both continuing bitterness toward his father and anxiety about a series of lawsuits that were filed against him, his brother Andrew and other family members.

Just last week, Mr. Madoff, 46, was among the directors and officers of a Madoff affiliate in London who were sued by the trustee seeking assets for victims of the scheme.

It was the second lawsuit filed against him by the trustee, Irving H. Picard, who had initially sued him last year seeking to recover approximately $200 million that the family had received in salaries, bonuses, expense-account payments and gains in their own investment accounts at the Madoff firm.

Mr. Madoff was particularly upset that the trustee had named his young children as defendants in a lawsuit filed in late November seeking the recovery of money Bernard Madoff had paid out to his extended family over the years, according to the person who recently spoke with him, who insisted on anonymity because he was not authorized to speak on behalf of the family.

The person said Mr. Madoff had also been upset at some recent news coverage speculating that criminal charges against him and his brother were still likely.

Charges have not been filed against any of the immediate family members, and their lawyer has said publicly that neither Mark Madoff nor his brother has ever been notified by prosecutors that they were the subjects of a criminal investigation.

Nevertheless, there has been speculation that members of the Madoff family were vulnerable to being prosecuted for tax-law violations, given the variety of low-cost loans and generous expense-account payments that were part of the office culture at the Madoff brokerage firm.

The person who had recently spoken with Mr. Madoff said that there was also growing discouragement about finding a job. “He had concluded he was unemployable,” the person said.

Ira Lee Sorkin, a lawyer for Bernard Madoff, said he had not been able to contact his client at the North Carolina prison where he is serving a 150-year sentence for his crimes.

“But I’m very sure he has been informed,” Mr. Sorkin said, adding, “This is a great tragedy on many, many levels.”

A spokeswoman for the Federal Bureau of Prisons, Traci Billingsley, said, “Any time there is a death of a family member, and the agency is notified, we immediately notify the inmate.”

Inmates may request to attend funerals, she said, and those requests are considered case by case.

Peter Chavkin, a lawyer for Ruth Madoff, Mark’s mother, said simply: “Ruth is heartbroken.”

Mark Madoff had been a licensed broker at his father’s firm since June 1987. A number of Mark’s oldest childhood friends from Roslyn, N.Y., invested with the Madoff firm and lost their savings in the fraud, said another person who was close to the family. This destroyed those relationships and caused Mr. Madoff great pain, the person said.

And on the advice of his lawyer, Mark Madoff has had no contact with his parents since the day before his father’s arrest two years ago.

The steps that led to that arrest began when he and his brother, Andrew, confronted their father over his plans to distribute hundreds of millions of dollars in bonuses to employees months ahead of schedule.

According to documents filed by the F.B.I. at the time of the arrest, that meeting led to a private conversation on Dec. 10, 2008, in which Bernard Madoff told his sons that all the wealth and success the family seemed to possess were based on a lie — an immense Ponzi scheme that was crumbling under the pressures of the financial crisis.

Mark and his brother immediately consulted a lawyer and were advised they had to report their father’s confession to law enforcement. They did so, and the following morning their father was arrested at his Manhattan penthouse.

The public fury over the stunning crime — Bernard Madoff estimated the losses at $50 billion — was not limited to its mastermind. Mark Madoff, his mother and his brother were all the subject of constant media speculation. Many articles speculated that they had been involved in their father's crime, or at least were aware of it.

The lawsuits that are pending against Mr. Madoff will not necessarily be derailed by his death. Typically, the litigation would continue against the estate of any deceased defendant.

The autopsy on Mr. Madoff is scheduled to be conducted on Sunday, said Ellen S. Borakove, a spokeswoman for the city's chief medical examiner, Charles S. Hirsch. She said that the results should be available "by early afternoon" on Sunday.

Mr. Madoff's body was removed on a stretcher from his building on the edge of SoHo shortly after noon Saturday. Police blocked off the street for a while as a crowd of reporters and camera crews mixed with a growing number of people stopping to watch. The building is also home to the performer Jon Bon Jovi.

Gregarious and handsome, Mark was the more outgoing of Mr. Madoff's two sons. At the University of Michigan, his social circle included students largely from other well-to-do East Coast families.

He graduated in 1986 and moved to New York to join his father's firm. Most of his friends rented crammed studios, but Mark lived in an apartment his father had bought for him in Sterling Plaza, a luxury high-rise on Manhattan's East Side developed by Sterling Equities. Sterling is controlled by Fred Wilpon, the owner of the New York Mets, whose family was friendly with the Madoffs and whose businesses had invested hundreds of millions of dollars in the Ponzi scheme.

Mark Madoff married his college girlfriend, Susan, and moved to Greenwich, Conn., where they raised two children. They divorced in the 1990s and Mark eventually moved back to Manhattan. He was remarried, to Stephanie Mikesell, and had two more children with her.

His brother Andrew was considered more cerebral and reserved than Mark, and served as co-director of trading with his brother. He, too, joined his father's firm after earning an undergraduate business degree from the Wharton School at the University of Pennsylvania.

The civil lawsuit Mr. Picard filed last year said Bernard Madoff's firm "operated as if it were the family piggy bank." It said Mark received at least $66.9 million of improper proceeds, including approximately $30 million in compensation since 2001, from his father's firm.

Mark and his relatives were "completely derelict" in carrying out their roles at the firm, the suit said.

At the time, Mr. Flumenbaum, Mark's lawyer, said in a statement that his client “strongly disagreed with the trustee’s baseless claims.”

Peter Lattman, Liz Robbins and Tim Stelloh contributed reporting.

Madoff Had Wide Role in Mets' Finances

By SERGE F. KOVALESKI and DAVID WALDSTEIN

February 1, 2011

When Fred Wilpon's son Jeff was married at Fresh Meadow Country Club on Long Island, Bernard L. Madoff and his wife were there. When Mr. Madoff's son Mark was married at the same country club, Mr. Wilpon, the principal owner of the Mets, was a guest as well.

When the Mets negotiated their larger contracts with star players — complex deals with signing bonuses and performance incentives — they sometimes adopted the strategy of placing deferred money owed the players with Mr. Madoff's investment firm. They would have to pay the player, but the owners of the club would be able to make money for themselves in the meantime. There never seemed to be much doubt about that, according to several people with knowledge of the arrangements.

"Bernie was part of the business plan for the Mets," a former employee of the club said.

But Mr. Wilpon involved more than his team with Mr. Madoff. He also encouraged certain friends to invest.

Robert Tischler was such a friend. A onetime fellow commuter on the Long Island Rail Road with Mr. Wilpon — they would meet on the platform of the Manhasset station before Mr. Wilpon made it big — he came to own a piece of an apartment building with Mr. Wilpon and Mr. Wilpon's brother-in-law, Saul Katz. When the men sold the building in the 1980s, Mr. Wilpon and Mr. Katz, who owns a portion of the Mets, suggested that he invest some of his profits from the deal with Mr. Madoff, he said.

"The numbers were always going up and never going down," Mr. Tischler said. "I was withdrawing $65,000 to $70,000 a year from my Madoff accounts. They were part of my living expenses.

"It was terrific," he said, "until the day of the disaster."

Since the day of the disaster — Mr. Madoff's December 2008 arrest for orchestrating a $65 billion Ponzi scheme — Mr. Wilpon's relationship with Mr. Madoff has been generally acknowledged but not well understood. Mr. Wilpon and his family have offered scant details about the friendship, except to indicate they felt deeply betrayed by the scam and were harmed financially.

Now, however, a lawsuit against Mr. Wilpon and Mr. Katz brought by the trustee for victims of Mr. Madoff has suggested the relationship — financially and personally — was deeper than anyone might have suspected. The trustee, Irving H. Picard, has alleged that the two men's dealings with Mr. Madoff were extensive and longstanding, and that they went on even after suspicions about Mr. Madoff's operation were raised, according to two lawyers involved in the case.

As a result, according to the lawyers, Mr. Picard has asserted that Mr. Wilpon and Mr. Katz either knew or should have known that Mr. Madoff's operation was a potential fraud. Mr. Wilpon, Mr. Katz and their lawyers have refused to comment on the lawsuit, which was filed under seal in December in federal bankruptcy court in Manhattan.

But interviews with current and former associates of Mr. Wilpon and Mr. Katz, as well as former employees of the club, former employees of Mr. Madoff and others, make it clear that the relationship was substantial and that the role Mr. Madoff played in the financial life of the ball club and the Wilpon and Katz families was pervasive.

"The relationship between Fred and Bernie became closer and closer because Bernie was returning more and more to Fred in terms of his investments while Bernie is getting exposure from Fred and Saul," said Jerry Reisman, a lawyer in Garden City, N.Y., who has represented 10 or so commercial real estate investors who lost a total of some $150 million to Mr. Madoff.

"They both relied on one another," he said. "It was reciprocal, symbiotic. They both relied on each other for money, and Bernie also relied on Fred for contacts."

One former executive with the Mets recalled how it could work:

"I remember vividly Madoff's name being brought up a lot when" the team "would negotiate contracts, particularly with deferments," said the former executive, who would not be identified because he did not want to harm his career in baseball. "That money would be turned over to Madoff.

"And as part of friends and family of the Mets, they offered people the opportunity to invest in Bernie. There was talk about Bernie averaging like 15 percent for the Wilpons. It just seemed too good to be true, but then you think the owner has vetted it."

Frank Cashen, the former general manager of the Mets who built the team that won the 1986 World Series, said it was his understanding that several million dollars of his deferred compensation had been invested with Mr. Madoff, but that he had been paid. Asked whether it was Mr. Wilpon or Mr. Katz who was more likely to push the idea of investing with Mr. Madoff, Mr. Cashen, who stepped down as general manager in 1991, said, “To me, they operated in unison.”

The Madoffs and the Wilpons raised their children in Roslyn, N.Y., and their sons were friendly. They traveled together occasionally, according to mutual friends and associates. And the three men — Mr. Wilpon, Mr. Katz and Mr. Madoff — came to support and involve themselves in a number of the same philanthropic endeavors.

When Mr. Madoff moved his offices from Manhattan’s financial district, he took up office space in a Midtown building owned in part by Mr. Wilpon’s real estate company.

Three days before Mr. Madoff’s arrest, there was a meeting of the board of the Gift of Life, a bone marrow donor registry. It was held in Mr. Madoff’s office, his former secretary said. Mr. Wilpon was there.

“There was always Fred Wilpon,” said Eleanor Squillari, Mr. Madoff’s longtime secretary. Mr. Katz, she said, was even more of a presence. And Mr. Wilpon’s son Jeff would stop by to visit with Mr. Madoff’s son, Mark, or call and joke with her on the phone. Mr. Madoff, she said, went to Japan with the Mets in 2000. He brought her back a kimono.

Still, Ms. Squillari thought Mr. Madoff was a little more formal around Mr. Wilpon and Mr. Katz.

“Bernie acted differently with Fred than he did with his closer circle of friends — the Shapiros, the Blumenfelds, the Picowers,” she recalled. “They weren’t as chummy. Fred wasn’t part of that clique. Bernie was more businesslike with Fred and Saul.”

She and others interviewed said they were convinced Mr. Wilpon and Mr. Katz did not know about Mr. Madoff’s criminal enterprise. But others interviewed, including two former employees of the Mets, said they were struck, both years ago and in hindsight, by the outsize confidence Mr. Wilpon had in Mr. Madoff. The employees would not be identified because they did not want to embarrass their former bosses, whom they continue to admire.

“It was almost like Fred and the others were marveling over it,” one former employee of the club said. “But it was unclear how Madoff would make the returns or where he would park the money.”

Another former employee said he was offered a chance to invest with Mr. Madoff by Mr. Wilpon and Mr. Katz. He said he asked them, “How does Bernie do it?”

“He’s smarter than everyone else,” he said he was told. “I remember hearing the conversations about how Bernie returned 18 percent. And the answer was that he was a very smart guy who was creative and knows where to make plays. Fred was expressing admiration for Bernie.”

Indeed, the breadth and depth of investing done with Mr. Madoff by the Wilpon and Katz families and their financial holdings, including the Mets, are remarkable. The trustee, in his lawsuit seeking hundreds of millions of dollars from the men, takes aim at roughly 100 accounts held by Mr. Wilpon, Mr. Katz, their families or business operations.

According to an analysis of the list of Mr. Madoff's 15,000 clients, done by Jamie Peppard, a former financial auditor who has studied the Madoff case, more than 500 accounts can be tied to Mr. Wilpon and Mr. Katz. Mr. Wilpon had at least 17 accounts just under his name, according to her analysis.

The former employees of the Mets said substantial aspects of the club's financial operations seemed to flow through, or wind up with, Mr. Madoff — annuities set up for players, cash generated by sponsorship deals, and more. The team regularly discussed investing deferred money from long-term player contracts in Madoff accounts. Bobby Bonilla was among the players who had their deferred money put with Mr. Madoff, one former employee said.

In those cases, the players would agree to take less money up front and be paid over a number of years, earning interest. It appears the Mets would be able to keep any money earned over that agreed rate, and Mr. Madoff regularly produced returns that outdid prevailing interest rates.

And when the costs of disability insurance spiked, the former employee recalled, the Mets began to self insure. They did it by investing premiums with Mr. Madoff, he said.

"He was an investment vehicle that existed for Fred and the organization," one former employee said. He added, "I always wondered why Bernie was smarter than everyone else."

Jack Begg, Toby Lyles and Jack Styczynski contributed research.

JPMorgan Hid Doubts on Madoff, Documents Suggest

By DIANA B. HENRIQUES

February 3, 2011

Senior executives at JPMorgan Chase expressed serious doubts about the legitimacy of Bernard L. Madoff's investment business more than 18 months before his Ponzi scheme collapsed but continued to do business with him, according to internal bank documents made public in a lawsuit on Thursday.

On June 15, 2007, an evidently high-level risk management officer for Chase's investment bank sent a lunchtime e-mail to colleagues to report that another bank executive "just told me that there is a well-known cloud over the head of Madoff and that his returns are speculated to be part of a Ponzi scheme."

Even before that, a top private banking executive had been consistently steering clients away from investments linked to Mr. Madoff because his "Oz-like signals" were "too difficult to ignore." And the first Chase risk analyst to look at a Madoff feeder fund, in February 2006, reported to his superiors that its returns did not make sense because it did far better than the securities that were supposedly in its portfolio.

Despite those suspicions and many more, the bank allowed Mr. Madoff to move billions of dollars of investors' cash in and out of his Chase bank accounts right until the day of his arrest in December 2008 — although by then, the bank had withdrawn all but $35 million of the $276 million it had invested in Madoff-linked hedge funds, according to the litigation.

The lawsuit against the bank was filed under seal on Dec. 2 by Irving H. Picard, the bankruptcy trustee gathering assets for Mr. Madoff's victims. At that time, David J. Sheehan, the trustee's lawyer, bluntly asserted that Mr. Madoff "would not have been able to commit this massive Ponzi scheme without this bank." But with the case under seal, there was no way to gauge the documentation on which the trustee based his $6.4 billion in claims against the bank — until now.

In a statement, JPMorgan Chase strongly disputed Mr. Picard's accusations and said it would "vigorously" challenge the claims in court.

The bank and Mr. Picard mutually agreed to unseal the complaint, which is one of dozens of big-ticket claims he has filed to recover assets for the victims of the Ponzi scheme. Other defendants include a half-dozen global banks, including HSBC in London and UBS in Switzerland, and the Wilpon family, the owners of the New York Mets.

To date, Mr. Picard has collected about $10 billion through settlements and asset sales; he estimates the total cash losses in the fraud at $20 billion.

In a statement released Thursday, the bank said the trustee's complaint was "based on distortions of both the relevant facts and the governing law." It denied that it had known about or played any role in Mr. Madoff's fraud and dismissed the claim that it turned a blind eye to his activities to retain income from his business.

"Madoff's firm was not an important or significant customer in the context of JPMorgan's commercial banking business," the statement said. "The revenues earned from Madoff's bank account were modest and entirely consistent with conventional market rates and fees."

As for Mr. Picard's claim that the bank should have frozen Mr. Madoff's bank account or reported his suspicious activity to regulators, the bank said, "At all times, JPMorgan complied fully with all laws and regulations governing bank accounts, including the regulations invoked by the trustee."

Although lawyers redacted the names and specific positions of bank executives involved in the incidents described in the lawsuit, other information in the complaint makes it clear that many of them held prominent positions.

Deborah H. Renner, one of the trustee's lawyers with Baker & Hostetler, reinforced that impression in a statement released Thursday. Ms. Renner said, "Incredibly, the bank's top executives were warned in blunt terms about speculation that Madoff was running a Ponzi scheme, yet the bank appears to have been concerned only with protecting its own investments."

One discussion of the bank's "due diligence" on Mr. Madoff was aired on June 15, 2007, at a meeting of the bank's hedge fund underwriting committee. According to the complaint, that committee was composed of "senior business heads and bankers, including individuals such as the chief risk officer and the heads of equities, syndicated leveraged finance, sales and hedge funds."

News accounts identified the chief risk officer for Chase's investment bank in June 2007 as John J. Hogan, who is currently a member of the bank's executive committee.

The newly public material offers the clearest picture yet of the long and complex relationship between Mr. Madoff and Chase, the global institution that served as his primary bank since 1986.

What emerges is a sketch of an internal tug of war. One group of senior Chase bankers was pursuing profitable credit and derivatives deals with Mr. Madoff and his big feeder-fund investors, the hedge funds that invested their clients' money exclusively with him. Another group was arguing against doing any more big-ticket "trust me" deals with a man whose business was too opaque and whose investment returns were too implausible.

For much of 2007, the tide was with the Chase bankers designing and selling complex derivatives linked to various Madoff feeder funds. By June of that year, they already had sold at least $130 million worth of the notes to investors, and they sought approval for deals that would have pushed that total to $1.32 billion, the lawsuit asserted.

The committee agreed to increase the bank's exposure to Mr. Madoff only to $250 million, but by 2008, the bank's risk management executives were gaining, backed up by suspicions raised by the "due diligence" teams visiting the large hedge funds that invested with Mr. Madoff.

After Mr. Madoff's arrest, the complaint said, a bank employee referred to the agenda for a committee meeting that considered the Madoff deals in June 2007 and wrote, "Perhaps best this never sees the light of day again!!"

On the sidelines in this shoving match between the derivatives sales force and the risk management unit, according to the lawsuit, were the retail bankers who were responsible for monitoring the daily activity in Mr. Madoff's bank accounts — activity that bore no resemblance to the normal patterns of a brokerage or investment management firm, according to Mr. Picard.

Even after it had begun to act on its suspicions about Mr. Madoff, Chase did not freeze his bank accounts or alert his regulators — or its own — to the unusual patterns in those accounts, the trustee contended.

The bank "had only to glance at the bizarre activity" in the Madoff accounts "to realize that Madoff was not operating a legitimate business," the trustee asserted in the suit. The money coming in was not from the sale of securities, and the money going out was not for the purchase of securities — at a time when Mr. Madoff was supposedly making billions of dollars in trades as part of his investment strategy, the complaint asserted.

Mr. Picard's lawsuit says that the door to Chase was opened for Mr. Madoff by one of his longtime investors, a wealthy Chase customer who was not identified in the complaint.

According to the trustee, the flow of money just between the Madoff accounts and this customer's accounts should have set off warning bells at the bank.

On a single day in 2002, Mr. Madoff initiated 318 separate payments of exactly $986,301 to the customer's account for no apparent reason, the trustee reported. In

December 2001, Mr. Madoff's account received a $90 million check from the customer's account "on a daily basis," according to the lawsuit.

Mr. Picard's complaint does not speculate about the purpose of the transactions.

The transfers should have caused the bank's money-laundering software to start flashing, Mr. Picard's complaint asserted.

From Prison, Madoff Says Banks 'Had to Know' of Fraud

By DIANA B. HENRIQUES

February 15, 2011

BUTNER, N.C. — Bernard L. Madoff said he never thought the collapse of his Ponzi scheme would cause the sort of destruction that has befallen his family.

In his first interview for publication since his arrest in December 2008, Mr. Madoff — looking noticeably thinner and rumpled in khaki prison garb — maintained that family members knew nothing about his crimes.

But during a private two-hour interview in a visitor room here on Tuesday, and in earlier e-mail exchanges, he asserted that unidentified banks and hedge funds were somehow "complicit" in his elaborate fraud, an about-face from earlier claims that he was the only person involved.

Mr. Madoff, who is serving a 150-year sentence, seemed frail and a bit agitated compared with the stoic calm he maintained before his incarceration in 2009, perhaps burdened by sadness over the suicide of his son Mark in December.

Besides that loss, his family also has faced stacks of lawsuits, the potential forfeiture of most of their assets, and relentless public suspicion and enmity that cut Mr. Madoff and his wife Ruth off from their children.

In many ways, however, Mr. Madoff seemed unchanged. He spoke with great intensity and fluency about his dealings with various banks and hedge funds, pointing to their "willful blindness" and their failure to examine discrepancies between his regulatory filings and other information available to them.

"They had to know," Mr. Madoff said. "But the attitude was sort of, 'If you're doing something wrong, we don't want to know.'"

While he acknowledged his guilt in the interview and said nothing could excuse his crimes, he focused his comments laserlike on the big investors and giant institutions he dealt with, not on the financial pain he caused thousands of his more modest investors. In an e-mail written on Jan. 13, he observed that many long-term clients made more in legitimate profits from him in the years before the fraud than they could have elsewhere. "I would have loved for them to not lose anything, but that was a risk they were well aware of by investing in the market," he wrote.

Mr. Madoff said he was startled to learn about some of the e-mails and messages raising doubts about his results — now emerging in lawsuits — that bankers were passing around before his scheme collapsed.

"I'm reading more now about how suspicious they were than I ever realized at the time," he said with a faint smile.

He did not assert that any specific bank or fund knew about or was an accomplice in his Ponzi scheme, which lasted at least 16 years and consumed about $20 billion in lost cash and almost $65 billion in paper wealth. Rather, he cited a failure to conduct normal scrutiny.

Both the interview and the e-mail correspondence were conducted as part of this reporter's research for a coming book on the Madoff scandal, "The Wizard of Lies: Bernie Madoff and the Death of Trust," for publication this spring by Times Books, a division of Henry Holt & Company.

In the interview and e-mails, he also claimed he had been helping the court-appointed trustee who is seeking to recover lost billions on behalf of his swindled clients. In e-mails, Mr. Madoff said repeatedly that he provided useful information to Irving H. Picard, the trustee trying to recover assets for the fraud victims. He met with Mr. Picard's team over four days last summer, he said. The e-mails were written in December and January, but he only recently agreed that they could be made public.

In prison, Mr. Madoff's access to the outside world is both limited and monitored. All visitors must be approved by prison authorities, who also screen his limited collect calls and his incoming and outgoing e-mails and letters, though interviews with lawyers are less restricted and can be conducted in private.

Asked about his cell, he described a room about 12 feet square with a big window looking out on the grounds; he said he had a roommate, the second since he arrived at the prison.

It was clear from the e-mails and interview here that Mr. Madoff closely followed news related to his case in December, the second anniversary of his arrest. He lashed out at what he called some of the "disgraceful" coverage of the suicide of his son Mark on Dec. 11.

Disputing reports that he refused to attend any funeral services for Mark, he said the prison informed him it would not approve a request for him to attend a service because of "the public safety issue" and the limited time available to make arrangements. He concluded any funeral he attended "would be a media circus" and that it "would be cruel to my family" to put them through that, he wrote on Dec. 29.

Regarding his meetings with Mr. Picard's legal team, Mr. Madoff asserted in an e-mail written on Dec. 19 that he had given Mr. Picard's legal team "information I knew would be instrumental in recovering assets from those people complicit in the mess I put myself into."

In a message 10 days later, he was even more explicit about what he told the trustee's team: "I am saying that the banks and funds were complicit in one form or another."

Mr. Madoff's claims must be weighed against his tenuous credibility. After deceiving federal regulators and supposedly sophisticated investors for at least 16 years, he would certainly be branded as a liar by defense lawyers if he appeared as a witness against any defendant in a courtroom — a fact he acknowledged somewhat ruefully during the interview on Tuesday.

Despite his many references to the complicity of others, he acknowledged in the Dec. 19 e-mail that he had not shared his information with the federal prosecutors working on criminal cases related to his fraud — although the trustee most likely would have done so, if Mr. Madoff's information was relevant to the investigation.

Mr. Madoff wrote in an e-mail that while he was willing "from the beginning" to give prosecutors information "to help recover assets only, I refused to help provide them with criminal evidence." In the interview he declined to discuss any of the criminal cases under investigation.

In the months after the Picard team's prison interviews, the trustee's law firm, Baker & Hostetler, filed hundreds of civil lawsuits seeking approximately $90 billion in damages and fictional profits withdrawn from Mr. Madoff's scheme over the years. The defendants in those cases included the Wilpon family, the owners of the New York Mets; JPMorgan Chase, which served for decades as Mr. Madoff's primary banker; and Sonja Kohn, the Viennese financier at the hub of a network of hedge funds that invested heavily with Mr. Madoff.

Mr. Madoff said about Fred Wilpon and Saul Katz, Mr. Wilpon's brother-in-law and business partner: "They knew nothing. They knew nothing."

There was no obvious sign that any of those lawsuits were based on evidence or guidance from Mr. Madoff. All the defendants have said they had no knowledge of the fraud and have denied the trustee's claims that, as financially sophisticated investors, they should have been suspicious from the beginning.

Mr. Picard declined to comment on whether his team had interviewed Mr. Madoff and would not say whether information from him had contributed to the vast body of litigation filed since last summer.

In some e-mails, Mr. Madoff conceded that Mr. Picard's team conducted its own investigation into the withdrawals made by some big clients, in the years before the Ponzi scheme collapsed, to determine who might have known what and when. Such withdrawals could indicate that investors could have been aware of the fraud, which could increase their liability.

However, Mr. Madoff added, “the facts are that I alone was present at certain meetings with these clients.”

To date, none of the major banks or hedge funds that did business with Mr. Madoff have been accused by federal prosecutors of knowingly investing in his Ponzi scheme. However, Mr. Picard in civil lawsuits has asserted that executives at some banks expressed suspicions for years, yet continued to do business with Mr. Madoff and steer their clients’ money into his hands.

All the financial entities facing civil lawsuits by Madoff victims and Mr. Picard have denied they had any knowledge of the fraud.

In a related e-mail on Jan. 12, Mr. Madoff cited out-of-court settlements that some banks and funds had negotiated with private Madoff investors over the last two years and claimed some settlements were made “to keep me quiet” about the role the institutions played in “creating my situation” and about the identity of the beneficial owners of some of their private accounts.

Mr. Picard has already recovered roughly $10 billion through asset sales and settlements with several foreign banks and a few significant Madoff clients, including the estate of a private investor, Jeffry Picower, and the family of Carl Shapiro, a philanthropist in Palm Beach, Fla.

While the Picower settlement had been under negotiation since at least the fall of 2009, the settlements with the Shapiro family and a Swiss bank, Union Bancaire Privée, both came after lawyers from Mr. Picard’s firm visited the prison here in Butner. But because both settlements came before Mr. Picard had filed any public claims in court, it is unclear whether information from Mr. Madoff was a factor in those settlement talks.

Neither Mr. Shapiro nor the Swiss bank has been accused of any complicity in Mr. Madoff’s crimes, and Mr. Picard has publicly acknowledged their good-faith cooperation with his inquiries when he announced the settlement agreements, which totaled more than $1 billion.

The only people formally charged with complicity in Mr. Madoff’s crime are his former auditor and members of his own staff.

Although Mr. Madoff swore in court that he had carried out his elaborate fraud on his own, his accountant, David G. Friehling, and Mr. Madoff’s senior lieutenant, Frank DiPascali, have pleaded guilty and are cooperating with prosecutors. Five other former

Madoff employees have been indicted; they have asserted their innocence and are awaiting trial.

While Mr. Madoff said he was determined to aid the trustee's efforts to recover assets, he was also critical of the trustee's reach, claiming that Mr. Picard was seeking far more money than was needed to resolve valid investor claims.

In addition to the customer claims for the cash losses and the paper wealth that vanished, the Madoff estate also faces claims by general creditors, like unpaid vendors and landlords, who cannot recover until all the valid customer claims are paid.

Mr. Madoff argued in several e-mails that Mr. Picard's responsibility was to return only the $20 billion in out-of-pocket cash that investors lost in his scheme.

Given that Mr. Picard has already recovered roughly $10 billion, Mr. Madoff calculated that the lawsuits against major banks and hedge funds would produce more than enough to cover the rest of the cash losses without Mr. Picard having to pursue "clawback" litigation against some longtime investors who withdrew more from their accounts than they put in.

Scenes From the Madoff Masquerade

Bernard Madoff in 1999. Ten years later, he would get a 150-year prison term for the largest Ponzi scheme in history. (Ruby Washington/The New York Times)

By DIANA B. HENRIQUES

April 23, 2011

This article was adapted from "The Wizard of Lies: Bernie Madoff and the Death of Trust," by Diana B. Henriques, a reporter for The New York Times. The book, to be published on Tuesday by Times Books, analyzes Mr. Madoff's rise and fall.

It is Wednesday, Dec. 12, 2007, the first day of the last year of Bernie Madoff's epic fraud.

The paperwork has been completed for a $9 million unsecured loan from his company to Peter Madoff, whose titles at the firm now include senior managing director, chief compliance officer, head of the options department and — since a few years ago — chief compliance officer for the private money management business that Bernie runs on the 17th floor of the distinctive oval office tower known as the Lipstick Building in Midtown Manhattan.

Still, the Madoff firm is casual about titles — Bernie almost seems to make them up as he goes along. Peter's primary title has always been "Bernie's brother." And this latest loan, to finance a real estate investment, reflects this reality.

At most big firms these days, an executive's request for a $9 million insider loan with a gentle interest rate would be coldly and firmly denied as inappropriate. Despite growing worries in the financial markets, longtime employees of Bernie Madoff's firm have no trouble borrowing cash when they need it. Bernie rarely says no.

But this loan to Peter — like all the insider loans that have come before and that will follow in succeeding months — is sucking out cash that Bernie Madoff will need when the turmoil bearing down on Wall Street finally hits.

Tonight is the firm's holiday office party, and employees are enjoying the margaritas and Mexican beer at Rosa Mexicano, a popular bistro on First Avenue, a few blocks from the office.

The party might almost be a family reunion. Beyond his own family ties, Bernie Madoff's employees work with their fathers, their cousins, their nephews, their stepsons, even their neighbors. Some of them — notably the staff on the 17th floor — were hired right out of high school and have never worked anywhere else.

The traders may joke about Mr. Madoff's nearly obsessive demand that they keep their desks clear and tidy, and they may roll their eyes at his crude humor, but the firm still seems like a great place to work. Besides being generous with insider loans, Mr. Madoff also manages much of the money his relatives and other senior employees have saved: their deferred compensation and retirement savings. Although he is prickly and secretive about it, everyone knows that giant hedge funds and wealthy individuals are constantly jockeying to get him to manage their money. Employees feel lucky that he is looking out for them, too.

There may be a hint of edginess in the air tonight. Madoff traders exchange jokes with traders at big Wall Street outfits, and lately, behind the laughter, they all are hearing faint rumbles from the approaching storm. Perhaps it comforts them to reflect that Mr. Madoff has seen rough weather before — from the shaky markets right after the terrorist attacks in 2001, all the way back to the glut of unfinished stock-trading paperwork that nearly choked Wall Street back offices in the late 1960s. He's seen it all and survived it all.

Wednesday, Jan. 23, 2008

On Mr. Madoff's calendar, this evening belongs to the New York City Center, the innovative cultural institution that he and his wife, Ruth, have supported for years and on whose board he has served for more than a decade. The center's performance tonight is a tango tour de force perfectly suited to its distinctive Moorish-style auditorium on West 55th Street. The faded building, constructed as a Shriners temple in 1923, needs an enormous amount of renovation work, and a major fund-raising campaign is already being planned.

As the Madoffs slip into their seats, Wall Street's growing anxiety about an approaching recession probably seems like a faint distraction. Mr. Madoff has at least $5 billion in the bank to sustain his Ponzi scheme, small bits of it contributed by people seated around him in this auditorium and giant slabs of it deposited by his global collection of hedge fund clients.

In theory, that cushion should see him through even a bad recession. But hedge funds hurtle into a trend, stampede out again and swerve at unexpected moments like a herd of wild beasts. If they all panic at some clap of economic thunder, Mr. Madoff will be lucky to avoid getting trampled. And if he goes down, many of the rich donors that City Center relies on will go down with him.

Thursday, Feb. 14

Mr. Madoff catches a night flight to Palm Beach, Fla., where hundreds of his investors live. Among them is Carl Shapiro, the retired garment industry entrepreneur who has been a client since the 1960s. Mr. Shapiro is celebrating his 95th birthday with a gala organized by his daughters. The Madoffs are invited.

The party the next evening is a head-turning event, even for Palm Beach. There are armloads of orchids, towers of roses, and caviar and Champagne in stunning abundance. The columnist Shannon Donnelly, the Palm Beach celebrity watcher, is on duty to collect the details, like the touching moment when Mr. Shapiro takes the microphone to serenade his wife of nearly 70 years. Ms. Donnelly notices 40 notable society names among the guests, including the owner of the New England Patriots football team and a well-known Chicago financier. She doesn't mention Bernie and Ruth Madoff — their names are almost entirely absent from the local society archives in Palm Beach, even though they have owned a home on this thin, rich island for almost 15 years.

Many of the guests who will be mentioned in the column are Mr. Madoff's customers. It isn't so much that they trust Mr. Madoff — if they know him at all, they probably sense the almost obsessive reserve that keeps most people at a distance. But they believe in Carl Shapiro, and Mr. Shapiro clearly believes in Mr. Madoff. How could you doubt Carl Shapiro's judgment?

The birthday party is a great success. After some quiet conversation with the Shapiros, Bernie and Ruth Madoff say their farewells and slip into the soft Palm Beach night for the short drive through the Breakers Hotel golf course and along the palm-lined Royal Poinciana Way to their home on North Lake Way.

As Palm Beach reckons such things, the Madoffs are newcomers. But Mr. Shapiro and his family have vouched for them — Mr. Shapiro's son-in-law, Robert Jaffe, was listed by Mr. Madoff as a reference on his successful application to the Palm Beach Country Club. Before long, dozens of multimillionaire club members would be fishing for a chance to meet Bernie, to invest with Bernie.

Thursday, Feb. 21

Back in Manhattan, Bernie Madoff welcomes a British bank executive into his office on the 19th floor, two floors above his intensely private money management business. The banker works in London for HSBC, which handles the administrative paperwork for a growing roster of global hedge funds, including several that do business with Mr. Madoff.

This is not a social call. Some HSBC units have been recommending various Madoff feeder funds to their clients for years, starting with the Fairfield Sentry fund in 1999. A number of the bank's offshore hedge fund clients are invested with Mr. Madoff and are trusting his firm to hold their assets for safekeeping. Legally, that makes Mr. Madoff's firm the "sub-custodian" of the funds, since HSBC is accepting fees to serve as their official custodian.

As much as everyone trusts Mr. Madoff's reputation, this is an unusual arrangement, especially with the world in such a skittish mood. The banker needs to answer a simple question: Are the securities that the hedge funds have left in Mr. Madoff's custody actually there?

They aren't, of course. Bernie Madoff knows this — and by now there is enough quiet gossip about him in the hedge fund world to suggest that what he already knows others are starting to suspect.

Even within HSBC, there have been skeptics. As early as 2001, a few bank executives were expressing doubt about Mr. Madoff. In September 2005, the bank asked the accounting firm KPMG to review the "operational risks" of Mr. Madoff's business. When the report came back in early 2006, it included a chilling list of what could go wrong, from misdirected trades to outright fraud.

But despite warnings and some internal doubts, the bank apparently felt that Mr. Madoff's stainless reputation and his standing with market regulators made such nightmare possibilities sound outlandish.

Still, next month, the bank will ask KPMG to do yet another assessment of the risks of doing business with Mr. Madoff. Perhaps this is what the banker has come to say. Or perhaps that examination will be ordered as a result of his visit today.

Despite that renewed scrutiny, HSBC will continue to provide administrative and custodial services to the funds that deal with Mr. Madoff for almost 10 more months.

Friday, March 14

After the stock market lurches to a sweaty close today, co-workers see Marcia Beth Cohn climb the oval staircase to the 19th floor and slump into the secretary's chair near Mr. Madoff's glass-walled office. Ms. Cohn is the president of Cohmad Securities, a tiny brokerage firm that shares office space with Mr. Madoff's firm but clears its small volume of stock trades through the investment bank Bear Stearns. She is a wiry, athletic woman with very short, dark auburn hair. She swivels toward Mr. Madoff, standing nearby, and asks with a shaky smile: "O, wise man, what is going to happen to us?"

Earlier today, the Federal Reserve extended an emergency line of credit to Bear Stearns, which was caught in an old-fashioned "run on the bank." It is the first time in history that the Fed had stepped in to rescue an investment firm. Rumors of unrecognized mortgage losses are shaking people's faith in other giant Wall Street firms, too. The Dow closed down nearly 200 points.

It is a day to frighten anyone, but Mr. Madoff is characteristically calm. He gives the small group around Ms. Cohn a quiet but reassuring lecture on the safety net that protects customer accounts on Wall Street. He is confident that Bear Stearns will find its footing once today's panic ebbs.

But federal regulators are already scrambling to find a buyer for Bear Stearns. From this weekend on, pension funds and other institutional investors will demand more information about the banks and brokers they deal with. There will be more questions put to Mr. Madoff, more answers demanded, and more nervous withdrawals.

It is an anxious, faintly terrifying day, but this is nowhere near as bad as it will get.

Friday, April 25

A partner at the Fairfield Greenwich Group, one of Mr. Madoff's earliest and biggest hedge fund investors, is studying the rate at which cash is pouring out of its flagship product, the Fairfield Sentry fund, whose $7 billion in assets are entirely invested with Mr. Madoff. The Fairfield Greenwich firm has quietly put itself up for sale, and the partner knows that any well-heeled buyer will scrutinize these numbers to calculate the firm's potential value.

An explanation will definitely be required, based on the numbers that the partner shares today in an e-mail to some of his colleagues. Redemption rates are high — twice the hedge fund industry average. The partner can explain this. With monthly redemptions allowed on 15 days' notice, "many investors use Sentry like a checking account," he notes. This contributes to the Sentry fund's appeal — and to its vulnerability.

On the plus side, Mr. Madoff has capped how much money he will take from Fairfield Greenwich, so the redemptions will allow them to satisfy investors whom the fund had to turn away in the past. On the negative side, the redemption rate could dash the firm's hopes of finding a buyer.

In a more private e-mail a few minutes earlier, the partner had been more candid. The downside risk of not replacing the withdrawn cash "is very significant," he wrote. It would reduce the firm's revenue from management fees and, thus, its value to a prospective buyer. The risk posed by the decline in the fund's cash is real, he continued, although he saw it as "a less obvious risk with Madoff than the risk that he 'blows up' but a real one nevertheless."

Other hedge funds, private bankers and wealthy individuals scattered around the world have invested billions of dollars in the Fairfield Sentry fund. If one of the risks these investors are taking is that Madoff will blow up, it clearly is not obvious to them.

Wednesday, May 14

Mr. Madoff looks quizzically at the two men who have been waiting in his 19th-floor conference room since 11 a.m., and gestures them into his adjacent office.

"I don't know why I agreed to see you," he says. He doesn't sound rude, just a little confused. He moves to his seat behind the desk as the visitors, a retired New Jersey businessman and his accountant, settle into the chairs across from him.

The businessman mentions the name of the wealthy Madoff investor who had made the introduction. Mr. Madoff looks blank, as if he does not recognize the name. He has thousands of investors — but his visitors do not know that. They still think that Bernie Madoff is an exclusive, highly selective investment adviser. After all, the businessman made at least a half-dozen calls before finally getting this spot on Mr. Madoff's calendar.

"All right, as long as you're here . . . " Mr. Madoff says, as he seems to relax slightly. He does not have a lot of time to spare, he adds — he will be leaving the next day for the South of France. They trade some pleasantries about his vacation plans. He seems in no hurry to make a sales pitch; he shows no sign of wanting the businessman's money.

Suddenly the businessman asks, "You didn't grow up wealthy, did you?"

Mr. Madoff smiles. He begins to recount his humble beginnings, the classic biography of the self-made man, something he has in common with his visitor.

Finally, they get down to the details.

What is his fee? There is no fee.

What is the minimum investment? Five million dollars.

“I’m not really prepared to put in that much at first,” the businessman says. Typically he starts small with a new money manager, waiting for good results before committing as much as Mr. Madoff requires.

Mr. Madoff shrugs. “Well, you can put in $2 million now, but by the end of the year you have to put in the rest.”

At that, the businessman’s accountant knows this discussion is going nowhere and he turns his attention to his surroundings. There is not a single item on Mr. Madoff’s desk — not even a pencil. He notices the array of costly Roy Lichtenstein prints on the wall, all variations on the figure of a bull, Mr. Madoff’s icon. He takes in Mr. Madoff’s expensively cut dress shirt and handsome tie, his silver hair curling stylishly over his collar. Mr. Madoff truly seems indifferent to the outcome of the meeting.

The businessman continues to quiz him — that’s his style, as his accountant can attest. He pokes and prods until he gets answers.

Abruptly, Mr. Madoff becomes firmer. “Listen,” he says. “You ask a lot of questions. I just want to make one thing clear: With all due respect, once you invest, you can’t call me. You’ll deal with someone else.”

The businessman smiles — his accountant knows the comment has shut the door on any possibility of a deal. Perhaps that’s what Mr. Madoff intended.

As much as he needs this man’s cash, he cannot afford this relentless curiosity. After a few more pleasantries, they rise, exchange handshakes and walk toward the double glass doors leading to the elevators.

Friday, June 6

Today, the Madoff firm sends a check for just over $6 million to lawyers handling the purchase of a new gray-shingled house on a Nantucket beach by Mr. Madoff’s older son, Mark, and his wife, Stephanie.

It is a beautiful property, larger and better situated than their former vacation home there, which they’ve just sold for $2.3 million. Located on the island’s south shore, it has five bedrooms and baths, a gracious guest cottage, a pool and a hot tub, and a 180-degree view of salt grass, sand and ocean from its deep wraparound porch.

There is room for their 2-year-old daughter to play and for Mark’s two older children, from his previous marriage, to come for summer visits full of bike rides, fishing trips and games.

Perhaps it isn’t wise for Bernie Madoff to let Mark borrow so much cash right now. The trends are getting more worrisome. Some of Mr. Madoff’s important feeder funds are withdrawing more than they're bringing in. Even the vast Fairfield Sentry hedge fund, that $7 billion behemoth, is losing cash.

But to refuse Mark would be almost impossible. How would he explain it, after all these years of being the family's bank? His two sons live the way the heirs of any successful hedge fund manager would expect to live.

Operating at the level that Mr. Madoff pretends he has reached — with many billions in assets supposedly invested with him, with a net worth in the hundreds of millions, with three vacation homes of his own — how could he explain that it simply wasn't a good time for him to part with a mere $6 million?

The younger Madoffs will close on the home on Monday, just in time for the sweet summer months on Nantucket.

Tuesday, July 15

Bernie Madoff is meeting with four visitors from Florida — and he knows that this meeting could cost him as much as $33 million.

Three of the visitors are associated with the MorseLife Foundation in West Palm Beach, which operates one of the premier senior care facilities on Florida's golden east coast. The fourth is a financial planner in the West Palm Beach office of Merrill Lynch, who has recently expressed a few mild doubts to the foundation's board about its Madoff investment. His specific concern is that the foundation is putting too many of its eggs in Bernie's basket. In the spring, he recommended pulling out some of the Madoff money and investing it elsewhere.

The MorseLife Foundation, whose board is dominated by the same sort of wealthy philanthropists whom Mr. Madoff has cultivated everywhere, opened an account with him in 1995. Since then, the foundation has invested more than $11 million and has never made a withdrawal.

On this hot summer day, these visitors believe that MorseLife has about $33 million in that account, representing almost 60 percent of its total endowment.

There is nothing in the account, of course. It is just another small pipeline into Mr. Madoff's huge criminal enterprise. Mr. Madoff is caught in an increasingly dangerous market environment. This week, the stock of Fannie Mae, the once-impregnable mortgage giant, has been in free fall. Mr. Madoff knows that some of his big, nervous hedge-fund clients could soon demand their billions back. But steady long-term endowments like that of MorseLife have been his bread and butter for years. It will greatly magnify his worries if they start pulling money out, too.

No doubt he is determined to charm the man from Merrill Lynch. Mr. Madoff is relaxed and calm, as always, and he clearly succeeds in reassuring his visitors about his hedged, conservative investment strategy. Shortly after this meeting, the Merrill executive will reverse his position and accept the foundation's continuing investment with Mr. Madoff.

Still, it is an ominous victory. Not long ago, the question of whether the foundation should stay would never have come up, much less have made its way into Mr. Madoff's appointment book.

Sunday, Sept. 7

The weather is hot and humid, but a soft west wind is making the Long Island shore a little more comfortable. Mr. Madoff's calendar shows that his son Andrew and Andrew's children are to spend this weekend with him and Ruth at the beachfront home in Montauk.

Anyone who leaves the beach and switches on the television today will find the news almost unthinkable: the federal government is seizing control of Fannie Mae and Freddie Mac, the two largest mortgage finance companies in the country. The bailout is the brainchild of the Treasury secretary, Henry M. Paulson Jr., and its price tag is rumored to be in excess of $25 billion.

The alternative could be far more costly. Fannie Mae and Freddie Mac have issued billions of dollars in publicly traded debt backed by home mortgages. Fears about the quality of those loans is driving investors out of the credit markets; money to finance new mortgages is drying up.

Andrew Madoff surely knows that this news will roil the markets tomorrow, and he and the other traders at his father's firm will probably have a grueling day.

Privately, Bernie Madoff knows that this news will further alarm his institutional investors, especially the overseas hedge funds he is fleecing through his Ponzi scheme. But no one without a crystal ball could know that this epic bailout — detailed under outsize headlines in all the next day's newspapers and debated on television talk shows as an unwarranted and dangerous intrusion of the federal government into the private sector — will soon look like a mere footnote to the calamity bearing down on Wall Street.

Monday, Sept. 15

September is the perfect time to visit the South of France. The air is sweet and fresh, the vineyards are glowing, and the sea is vivid and clear. Bernie and Ruth Madoff and some friends had come over on the company jet before the weekend. They plan to fly on to Italy after a few days here at the Madoffs' small stucco town house, tucked into the rear corner of a modest complex called Château des Pins.

But the news from New York is so alarming that the Madoffs and their guests probably just hover inside around the television, ignoring the sunshine on the hills above Cap d'Antibes. Lehman Brothers, one of the most fabled names on Wall Street, filed for bankruptcy this morning, after a frantic weekend of failed negotiations with bank regulators and government officials.

Treasury officials refused to throw a lifeline to Lehman; the Fed did not offer financial backing to attract a willing buyer. This time — after Bear Stearns, Fannie Mae and Freddie Mac — there was no bailout. It is the largest bankruptcy in American history.

Within hours, there are dire predictions that another Wall Street giant, the insurance firm American International Group, is sinking under the weight of its derivatives losses. Beset by fear and seeking capital, executives at Merrill Lynch are rushing into a shotgun wedding with Bank of America. The stock market seems to be in a death spiral, and even seasoned Wall Street veterans are shaken by the faint trace of panic they hear in the voices of customers, regulators and television commentators.

"Let's go home." It is the group's decision, really, not just Bernie's. Something deep in the bedrock of Wall Street is cracking, and the tremors can be felt even here.

There are calls to the airport to ready the jet. Bags are quickly packed. As the aircraft streaks up to its cruising altitude, perhaps Bernie Madoff takes one last look at the charming landscape dropping away beneath him. He is flying into the financial storm of the century; he will not fly out again.

Madoff Says Judge Made Him a ‘Human Piñata’

By BENJAMIN WEISER

June 28, 2011

Having served two years of his 150-year sentence, Bernard L. Madoff remains upset that Judge Denny Chin did not give him a shorter term, which might have allowed him the chance someday to regain his freedom, even as a very old man.

“Maybe the judge felt, ‘Well, he’s 70 years old, so even if I give him 20 years, he’s going to be 90 years old,’” Mr. Madoff said by phone from the federal prison in Butner, N.C.

“But quite frankly, there’s a big difference with dying in prison, you know, and dying outside with your family.”

Judge Chin has said in recent interviews that he considered a sentence that might have allowed Mr. Madoff to be freed when he is in his 90s. But he concluded that Mr. Madoff simply did not deserve it, and in court called his conduct “extraordinarily evil.”

Mr. Madoff, in a recent series of interviews and e-mails, took issue with the judge’s description. To characterize him as “this monster and this evil person,” he said, “I just think that was totally unrealistic and unfair.”

“In my mind, Chin was anything but fair, with zero understanding of the industry,” Mr. Madoff added.

He said the judge had made him “the human piñata of Wall Street,” while financial firms and government officials “walk away free.”

“Remember,” he said, “they caused the recession, not me.”

Mr. Madoff also criticized his prosecutors. (Neither they nor the judge would comment on his remarks.)

At Butner, where he is housed in a medium-security prison, he said that in making his criticisms, he was not trying to justify his conduct. “My comments should not be taken as an excuse for the pain and suffering I have caused,” he wrote. In another message, he said he felt “completely responsible and have remorse and shame for what I have done.”

Mr. Madoff, who did not appeal his sentence, said he worked most days in the commissary and spent recreational time walking on a track and reading books, from junk novels to biographies. He made it clear that he had not been much of a reader previously. “Now, I literally read two books a week,” he said. “I’m reading all the James Michener books.”

He said he had pleaded guilty to spare his family the trauma and expense of a trial. Did he expect a long sentence? Yes, he said. “But, did I think it was going to be 150 years? No.”

Mr. Madoff, now 73, said the thought of dying in prison remained very difficult for him. Yet, he added, “if it wasn’t for the fact that I am constantly anguished about the pain I have caused my family and others, I could deal with prison life here at Butner.”

Ruth Madoff Says Couple Tried Suicide in 2008

By DIANA B. HENRIQUES

October 26, 2011

On Christmas Eve 2008, two weeks after Bernard L. Madoff confessed to running history's largest Ponzi scheme, he and his wife, Ruth, attempted suicide in their Manhattan penthouse.

Mrs. Madoff said in an interview with The New York Times: "I don't know whose idea it was, but we were both so saddened by everything that had happened. It was unthinkable to me: hate mail, phone calls, lawyers."

The situation was "just horrific," she continued. "And I thought, 'I just can't, I can't take this. I don't know how I'll ever get through this, nor do I want to.' So we decided to do it."

According to Mrs. Madoff, who has been living in seclusion in Florida, she and her husband "were both in agreement — we were both sort of relieved to leave this place. It was very, very impulsive."

Mrs. Madoff came under a fierce media spotlight after her husband's arrest, unable to leave her apartment without being followed by photographers and being shunned by lifelong friends who had been her husband's victims.

His victims stretched around the world, with paper losses in the vast Ponzi scheme totaling $64.8 billion and cash losses nearing $18 billion. Those who lost money in his long-running fraud included major charities, university endowments, offshore hedge funds and thousands of middle-income investors. Many of those investors were members of the Madoffs' extended family.

More important to both of them than the media firestorm they faced, she said, was that she had become instantly estranged from her two sons, Mark and Andrew, who had turned in their father to law enforcement officials and precipitated his arrest on Dec. 11, 2008. He pleaded guilty three months later and is serving a 150-year sentence at a federal prison in Butner, N.C.

Christmas Eve had been a sorrowful evening, she said. She and her husband had spent it gathering together and wrapping some treasured jewelry and a few gift items they wanted to send to loved ones before they died.

Guessing at the required postage, Ruth Madoff covered the packages with stamps and mailed them to a few relatives and friends, enclosing short notes of affection and apology.

Mrs. Madoff said in the interview that she and her husband had discussed how many pills each should take — she weighed barely 100 pounds, he was heftier and taller — and then they both swallowed handfuls of what she thought was Ambien before climbing into their chintz-draped canopy bed.

Although she recalled the emotional pain she and her husband felt that evening, she also said she was “glad to wake up” from a long drug-induced slumber the next day. “I’m not sure how I felt about him waking up,” she added.

Mrs. Madoff said the couple never discussed suicide again, nor was she aware of her husband ever making another attempt. “But I have no idea why he didn’t — I don’t know how he lives with it all.”

In an e-mail from prison, her husband acknowledged that suicide “crossed my mind” after his arrest. Two factors deterred him, he said. He felt he could help in the effort to recover assets for his victims, and he “could not abandon my family.”

His family was shattered by his crime, cut off from one another by legal concerns and under constant suspicion in the media. Burdened by anger and grief, Mark Madoff committed suicide in his downtown Manhattan loft on Dec. 11, 2010, the second anniversary of his father’s arrest.

In recent media interviews, Mark’s widow, Stephanie Madoff Mack, disclosed that it was her husband’s second suicide attempt. In October 2009, he checked into a hotel near their home and took a large number of sedatives. He survived and underwent therapy, according to his widow’s account.

After years of silence and seclusion, Ruth Madoff agreed to talk with a Times reporter about the worst years of her life because her son Andrew had asked her to help promote a new authorized biography, “Truth and Consequences: Life Inside the Madoff Family,” to be published Monday by Little, Brown.

The information about the suicide attempt was first reported Wednesday evening by CBS News. An article based on Mrs. Madoff’s entire interview with The Times will appear on nytimes.com on Sunday evening. The interview was granted in exchange for an agreement not to publish the full report until then.

Mets' Owners Agree to Settle Madoff Suit for $162 Million

Fred Wilpon, center, said, "We acted in good faith and we're very pleased." (John Marshall Mantel for The New York Tines)

By RICHARD SANDOMIR and KEN BELSON

March 19, 2012

The owners of the Mets scored a major legal victory — one that might well preserve their control of the team — when the trustee for the victims of Bernard L. Madoff's vast fraud agreed to abandon hundreds of millions of dollars in claims against them.

In a settlement reached Friday and announced Monday morning just before their federal trial was to begin, the owners agreed to pay the trustee $162 million, but that figure is likely to be reduced or wiped out altogether as the complex bankruptcy litigation involving Mr. Madoff's investment operation plays out.

The trustee, Irving H. Picard, had initially sought $1 billion, declaring that the owners had enriched themselves over many years of profitable investing with Mr. Madoff while ignoring repeated warnings that he might have been a fraud.

The owners, Fred Wilpon and Saul Katz, had angrily decried the charges as an attempt to extort them into paying a giant settlement, one that might have forced them to sell the Mets, one of baseball's most valuable franchises. In an effort to stabilize the team's finances, the Mets appear to have sold 12 minority stakes in the club for $20 million each.

The settlement — under which the owners may not have to pay the trustee anything out of their pockets — makes clear that it was the trustee who blinked at the 11th hour. A federal trial, one that would have explored whether Mr. Wilpon and Mr. Katz had been "willfully blind" to evidence of Mr. Madoff's fraud, was set to start Monday morning with jury selection.

"I can't wait to get back to our businesses, which I love, and the first order of business, the first priority, is getting down to Florida tomorrow, getting to that spring training camp and bringing the Mets back to the prominence our fans deserve," a clearly relieved Mr. Wilpon said outside federal court in Manhattan.

Mr. Picard was appointed by a bankruptcy judge in 2008 to recover money for Mr. Madoff's victims. To date, he has secured some $9 billion — or about half his goal — much of it from Madoff investors he has asserted were unjust beneficiaries of "too good to be true" returns.

In his lawsuit against Mr. Wilpon and Mr. Katz, Mr. Picard asserted that the men were sophisticated investors who were among those illegitimate beneficiaries. But Mr. Picard suffered a number of setbacks. The lawsuit was removed from bankruptcy court, and Jed S. Rakoff of the United States District Court, who took over the case, both reduced Mr. Picard's financial claims and raised the legal bar he would have to clear in order to collect.

Still, if Mr. Picard had prevailed at trial, he could have recouped as much as $303 million, in addition to the $83 million the Mets' owners were already ordered to pay.

His decision to settle for much less was regarded by a number of experts as a kind of surrender on the explosive assertions that were central to the case. Legal experts said the settlement would most likely embolden other defendants who are fighting accusations brought by the trustee. Mr. Picard has filed several large suits that have accused defendants of misconduct, including actions against some of Mr. Madoff's relatives and one of his primary banks, JPMorgan Chase. The cases make similar bad-faith claims to the one brought against the Mets' owners.

"I certainly consider this a capitulation by the trustee," said Bradley D. Simon, a former federal prosecutor who focuses on white-collar civil litigation for Simon & Partners. "It seems quite one-sided."

The Mets, as a baseball operation, still face significant financial trouble. The club has lost some $120 million over the past two years, has had to slash its payroll as attendance has fallen at Citi Field, and has had to put a portion of the team up for sale.

But the resolution of the suit, and on such favorable terms, ends an enormous financial threat.

“That decision removed the defendants from the sword of Damocles hanging over their lives,” Mario M. Cuomo, the former New York governor who was appointed as the mediator in the case in early 2011, said outside the courtroom. “And it will enable them to return to their work, their family and normalcy.”

Mr. Cuomo, who has been mediating high-profile disputes for decades, had not appeared to make much progress as the lawsuit, complete with acrimonious filings, ground on.

But with the case headed for trial, Mr. Cuomo evidently finally made headway.

About two weeks ago, he reached out to both sides, inviting Mr. Wilpon and Mr. Katz to his offices at the law firm Willkie Farr & Gallagher. He suggested to Mr. Wilpon and Mr. Katz that a trial could be both embarrassing and damaging to their reputations, and in a separate conversations he lobbied the trustee to come to a settlement.

“What you do in mediation is recite the realities,” Mr. Cuomo said later in the day during an interview, speaking of his role. “You don’t have to be brilliant. It’s called common sense.”

The settlement itself underscores how complicated the Madoff bankruptcy has proved to be.

Mr. Wilpon and Mr. Katz, as well as their business partners and family members, had hundreds of accounts with Mr. Madoff’s firm when he was arrested in December 2008.

The trustee had identified many of those account as “net winners” — asserting that the owners of those accounts had over the years withdrawn more money from them than they had put in. He argued that, in fact, those profits were “other people’s money,” and had to be returned.

Mr. Wilpon and Mr. Katz contended that they also had scores of accounts that were “net losers,” and they had applied to the very same trustee who was suing them to be reimbursed for those losses.

The settlement announced Monday amounts to a swap: Mr. Picard dropped the claims that the men had ignored warnings about Mr. Madoff; Mr. Wilpon and Mr. Katz agreed that they were obligated to pay back $162 million in so-called fictitious profits they had reaped from the net winner accounts from 2002 to ’08. That figure includes the $83 million that Judge Rakoff had earlier ordered them to pay.

How much of that $162 million the men will ultimately have to pay depends, oddly, on how successful Mr. Picard is in his efforts to recover money for Madoff victims. The Mets’ owners had applied to Mr. Picard to be reimbursed $178 million from their net loser accounts. If Mr. Picard’s recoveries do not yield $162 million after three years, Mr. Wilpon and Mr. Katz have guaranteed to pay as much as $29 million.

What was clear was that Mr. Wilpon and Mr. Katz used the settlement as vindication of their character. “We acted in good faith and we’re very pleased that this settlement bears that out,” Mr. Wilpon said.

For the trustee, the settlement appeared to be a business calculation: even if he could win a judgment that Mr. Wilpon and Mr. Katz were willfully blind to Mr. Madoff’s fraud — and have the verdict upheld on appeals that might take two or three years — he might not have received the $303 million he was seeking.

“It isn’t whether we win or lose,” David J. Sheehan, chief counsel to the trustee, said. “It’s whether we enhance the fund and help the victims. That’s what we did today, and that’s why we did it.”

Mr. Sheehan’s remarks Monday conflicted with much tougher ones made 13 months ago, when he said, “What we’re looking for is a billion dollars, and unless we settle for less than that, which we’re not inclined to do, where they get the money is of no moment to us.”

Mr. Picard might also have had second thoughts about the strength of his case. Judge Rakoff had been skeptical that Mr. Picard could successfully rebut Mr. Wilpon and Mr. Katz’s claims that they acted in good faith in their investing with Mr. Madoff.

Still, however strong Sheehan and Picard felt their case was, they could not be certain of victory.

“Any lawyer who walks into court knows that you can win, you can lose, and you can have the strongest case possible but you don’t know how the evidence will come in or how the jury will perceive the credibility of the witnesses,” said Annemarie McAvoy, a former federal prosecutor who is an adjunct professor at Fordham Law School. She said Mr. Picard “did away with the risk of walking away with nothing at the end of the trial.”

As he read aloud the terms of the settlement between two parties who had battled each other bitterly for more than a year, Judge Rakoff said, “All I say is love is wonderful.”

Peter Lattman contributed reporting.

In Guilty Plea, Peter Madoff Says He Didn't Know About the Fraud

By PETER LATTMAN and BEN PROTESS

June 29, 2012

Peter B. Madoff, the former No. 2 executive at Bernard L. Madoff Securities, stood before a judge on Friday and admitted to committing numerous crimes.

He avoided paying taxes on tens of millions of dollars in income, he said. He put his wife on the firm payroll even though she never worked there. He submitted false filings to securities regulators.

But he also emphasized that at no time was he aware that his brother, Bernard, was orchestrating the largest Ponzi scheme in history, wiping out $65 billion in paper wealth and shattering lives around the globe.

"I was in shock, and my world was destroyed," said Peter Madoff, describing his reaction when his brother told him about the fraud in December 2008. "I always looked up to and admired him."

Later in the hearing he said, "I truly believed my brother was a brilliant trader."

In a deal cut with prosecutors before his court appearance, Peter Madoff, 66, agreed to serve 10 years in prison, a sentence that still requires a judge's approval. He has also agreed to forfeit all of his assets, including the proceeds from the sale of a co-op on the Upper East Side of Manhattan; two homes on Long Island and one in Palm Beach, Fla.; and a 1995 Ferrari 355 Spyder.

Judge Laura Taylor Swain of United States District Court in Manhattan accepted the plea, and set him free on bail until his Oct. 4 sentencing. He and his wife, Marion, must turn over their passports and remain in the New York metropolitan area, the judge ordered.

The 10-year sentence was a point of contention between federal prosecutors and the Federal Bureau of Investigation. After Peter Madoff struck the deal with prosecutors, some officials at the F.B.I. questioned whether he got off too easy, according to people close to the case.

Preet Bharara, the top federal prosecutor in New York, addressed the severity of the sentence in a statement on Friday, casting the penalty as steep. Peter Madoff "will now be jailed well into old age, and he will forfeit virtually every penny he has," Mr. Bharara said. A dispute also emerged about the early-morning arrest. The F.B.I. dispatched agents to arrest Peter Madoff at his lawyer's office in Manhattan, and later drove him past a crowd of television cameras. Some officials wondered if the show was necessary since he had already agreed to plead guilty.

The conflict reflected the broader tension over high profile convictions. The tensions have grown as Mr. Bharara, has raised his profile after a series of successful prosecutions. The F.B.I., which builds the cases that Mr. Bharara's office ultimately prosecutes, has played a more anonymous role in the crackdown on financial crime.

"There may be disagreements along the way, but at the end of the day both offices are happy with this result," said Timothy Flannelly, a spokesman for the F.B.I.'s New York branch.

On Friday, the F.B.I. also highlighted Peter Madoff's role as a "chief architect" of the Madoff empire.

"Peter Madoff played an essential enabling role in the largest investment fraud in U.S. history," Janice K. Fedarcyk, an assistant director of the F.B.I., said in a statement.

Peter Madoff acknowledged that, despite his role as the firm's top legal and compliance officer, he failed to perform any meaningful oversight of his brother's investment activities, enabling a fraud that played out for decades, during which he was considered among Wall Street's most highly regarded money managers.

"I am deeply ashamed of my actions," Peter Madoff, reading from notes in a gravelly voice reminiscent of his brother's, said at the hearing before Judge Swain.

"I want to apologize to anyone who was harmed and to my family, and I'm here today to take responsibility for my conduct," he said, choking back tears.

Although Bernard Madoff has maintained that he acted alone, prosecutors have charged 13 others in connection with the case, including the office secretary and an outside accountant. Peter Madoff is the eighth person to plead guilty; five others await trial before Judge Swain.

While it did not match the pandemonium surrounding Bernard Madoff's court appearances, there was a circuslike atmosphere at the courthouse on Friday. Photographers and cameramen crowded the entrance, hoping to get a shot of the defendant. Spectators packed the courtroom, including a group of summer interns from the United States attorney's office.

Peter Madoff's guilty plea comes three years to the day after Bernard Madoff, 74, received a 150-year prison sentence, which he is serving at a federal prison in North Carolina. Peter, who worked for his brother for nearly 40 years, is the first relative to plead guilty to crimes connected to the Ponzi scheme.

“Peter Madoff helped Bernie Madoff create the image of a functioning compliance program purportedly overseen by sophisticated financial professionals,” said Robert Khuzami, the director of enforcement at the Securities and Exchange Commission, which filed a parallel civil case.

Prosecutors said that Peter Madoff deceived regulators by submitting sham paperwork that vastly underreported the firm’s assets and number of investors. The firm’s filings, signed off on by Peter, said it had 23 client accounts, when in fact it had more than 4,000. These misrepresentations helped Bernard Madoff avoid scrutiny, the government said.

The charges against Peter Madoff included falsifying documents and filing fraudulent tax returns. Prosecutors said that from 1998 to 2009, Peter Madoff and his family received more than $40 million from the firm, on which he did not pay any taxes. He avoided the detection of tax authorities by disguising those payments as loans or backdated stock trades, the government said.

Peter Madoff also acknowledged on Friday that, for years, his wife was paid more than $100,000 annually for a no-show job at the firm.

There had been speculation that Peter Madoff’s deal with the government included a promise by authorities to not bring any charges against his and Marion’s daughter, Shana Madoff Swanson, a lawyer at the firm. But his plea agreement does not protect anyone else from potential criminal charges, according to the plea agreement.

Mark W. Smith, a lawyer for Ms. Madoff Swanson, did not return a request for comment.

In his guilty plea, Peter Madoff described how on the day after learning about the Ponzi scheme, he assisted Bernard Madoff in sending out $300 million to employees, family and friends before Bernard confessed. He told the judge why he had committed this crime.

“I did as my brother said,” Peter explained, “as I’d consistently done for decades.

Peter Madoff Is Sentenced to 10 Years for His Role in Fraud

By PETER LATTMANN and DIANA B. HENRIQUES

December 20, 2012

Peter B. Madoff was sentenced on Thursday to 10 years in prison for crimes that helped his brother, Bernard L. Madoff, swindle investors out of billions of dollars in a Ponzi scheme that collapsed four years ago this month.

A lawyer by training, Peter Madoff is the second figure in the scandal to be sentenced. His older brother, Bernard, pleaded guilty in March 2009 and is serving a prison term of 150 years.

Mr. Madoff, in a slate blue suit and striped blue tie, entered the crowded courtroom accompanied only by his lawyers, although many members of his family and friends had written letters of support for him. The 63 character references stood in stark contrast to his brother's sentencing, when the judge in that case noted that he had not received a single supportive letter.

Still, a handful of victims attended the hearing, including two who spoke emotionally about the financial and psychological hardships they are enduring and urged the judge to impose a life sentence.

In his own brief statement to the judge, Peter Madoff said he was "deeply ashamed" of his conduct and had "tried to atone by pleading guilty." He added: "I am profoundly sorry that my failures have let so many people down, including my own loved ones and family."

In June, Peter Madoff, 67, admitted to a range of crimes, including falsifying documents, lying to securities regulators and filing sham tax returns. Prosecutors said that if Peter Madoff had properly done his job as chief compliance officer at Bernard L. Madoff Investment Securities, regulators would likely have detected the fraud years earlier.

Peter Madoff was not charged with knowing about the Ponzi scheme, and insists that he first learned about it only 36 hours before his brother's arrest.

During the sentencing in Federal District Court in Manhattan, Judge Laura Taylor Swain expressed skepticism about that assertion.

"Peter Madoff's contention that he did not know that anything was wrong with the investment advisory business is beneath the dignity" of a sophisticated Wall Street executive, Judge Swain said.

"It is also, frankly, not believable," she added.

Peter Madoff's lawyer, John R. Wing, has portrayed his client as a loving, charitable family man who was bullied, betrayed and destroyed by the imperious older brother he had idolized all his life. Bernard Madoff was widely viewed as an honorable and successful trader, Mr. Wing wrote in a letter to the court, "and no one believed it more than Peter did. Peter revered him and trusted him implicitly."

In the geography of the Madoff offices, the money management business run by Bernard Madoff operated from a separate suite two floors below Peter Madoff's office and the firm's trading operations. With separate key cards, Bernard Madoff kept the suite off limits, shutting his brother and sons out of the investment advisory business.

In pleading guilty, Peter Madoff has agreed to a 10-year sentence and a forfeiture order of $143 billion. Though a staggering sum that does not bear any relation to what Mr. Madoff could pay, it is tied to the amount of the crime's proceeds. The government set the amount that high to send a clear signal that it would seize all of his and his family's assets and distribute them to victims.

On the day of Bernard Madoff's arrest, his customers thought their accounts contained a total of $64.8 billion, but most of that wealth was fictitious. Madoff's customers had actual cash losses of about $17.3 billion in the fraud, according to Irving H. Picard, the Madoff bankruptcy trustee.

Mr. Picard has recovered about $9.3 billion and distributed about $3.7 billion of that to eligible victims. An additional $2.35 billion has been seized by federal prosecutors under forfeiture laws and will be distributed separately by the Justice Department.

Peter Madoff worked alongside his brother for 39 years. Though Bernard was the firm's sole owner, he paid Peter handsomely. The government said that Peter received about $40 million in compensation from 1998 to 2008. That money was put toward his and his wife, Marion's, lifestyle that included homes in Old Westbury, N.Y., on Long Island, and Palm Beach, Fla., as well as a $4 million apartment on Park Avenue.

In his letter to the judge, Mr. Wing cited the early patterns of the Madoff family as a reason Peter Madoff dutifully obeyed his brother. "Their mother viewed Bernie as the prince, and Peter longed for the love and approval of his brother and family," Mr. Wing wrote. "Peter had a large build, and Bernie ridiculed him mercilessly, calling him 'Rollo,' which hurt Peter deeply."

But despite that demeaning abuse, "Peter seemed to be blind to his brother's flaws," Mr. Wing wrote.

Judge Swain saw it differently. In her view, Peter knew for decades that the Madoff business operation was "a little bit crooked and he was content to go along with that." She then added, "We all know that a crooked operation is only rarely, if ever, just a little bit crooked."

Before Thursday's hearing, both sides filed letters to the judge highlighting factors they hoped she would consider.

The prosecutors stressed the harm done by Peter Madoff's willful failure to carry out his duties. They cited a letter submitted by Marion Wiesel, the wife of the Nobel Peace Prize-winner Elie Wiesel, whose foundation lost $15.2 million in the fraud. Mrs. Wiesel said the crime that flourished under Peter Madoff's neglect caused "the immediate and dramatic loss of a lifetime's worth of work and savings."

Judge Swain directed Peter Madoff to report to prison on Feb. 6, implicitly granting a request that he not be incarcerated until after his granddaughter's bat mitzvah in late January.

In her own appeal to the court, the granddaughter wrote, "I would give anything just to have him see me reading from the Torah even if it was only for a second."

The judge also complied with a request by Mr. Wing that she ask that Peter be assigned to a nearby prison in Otisville, N.Y., permitting regular visits from his family, though that decision ultimately rests with the Bureau of Prisons.

Besides the two brothers, criminal charges have been filed against a dozen other defendants. Bernard Madoff, 74, is serving his sentence at a federal prison near Raleigh, N.C. Peter's daughter, Shana Madoff Swanson, was a lawyer at the Madoff firm but has not been charged with any crime.

Frank DiPascali, a longtime Madoff employee, pleaded guilty in August 2009 and is awaiting sentencing. Of the remaining defendants, six have pleaded guilty to violations of tax and securities laws that sustained the scheme. The remaining five defendants have denied the government's charges and their trial is scheduled for October.

Among the 41 victim letters submitted by prosecutors was an unexpected one from Robert Roman, the brother-in-law of Bernard's wife, Ruth Madoff. Mr. Roman said that although he and his wife lost their life savings in the fraud, he did not want to see Peter imprisoned.

"Our family is supposed to hate him. But — we do not," Mr. Roman wrote. "Peter in prison is an answer only to those who seek revenge. It is not a solution."

Toward the end of the hourlong sentencing, as Peter Madoff fought back tears, Judge Swain counseled the defendant that true atonement required that he fully disclose what happened at his brother’s firm.

“Be honest about all that you have done and all that you have seen,” the judge said. “In other words, all that you know.”

Accountant Who Worked With Madoff for Years Is Indicted in Fraud

Paul J. Konigsberg, left, after he appeared in Federal District Court in Manhattan on Thursday to face criminal charges. (John Marshall Mantel for The New York Times)

By PETER LATTMAN

September 26, 2013

Federal authorities, broadening their investigation of Bernard L. Madoff's multibillion-dollar Ponzi scheme five years after the fraud was uncovered, unveiled criminal charges on Thursday against Paul J. Konigsberg, a longtime accountant in Mr. Madoff's inner circle.

The indictment accuses Mr. Konigsberg of assisting Mr. Madoff in doctoring the false account statements that were central to carrying out the fraud. Prosecutors say Mr. Konigsberg performed services for more than 300 accounts invested with Bernard L. Madoff Securities, including those held by some of the firm's earliest and wealthiest clients.

"In order to keep his scheme hidden for so long, Madoff needed the assistance of certain willing outsiders that could be trusted to handle otherwise suspicious activity," the government said. "Madoff directed many of his clients — including some of his most important customers, in whose accounts Madoff executed the most glaring fraudulent transactions — to use Paul J. Konigsberg, the defendant, as their accountant."

On Wednesday night, Mr. Konigsberg was on the East End of Long Island, in the Hamptons, having dinner with friends at Bobby Van's Steakhouse. An avid golfer, he and his friends played 18 holes at Sebonack Golf Club earlier in the day and planned another round for Thursday at the Atlantic Golf Club. But those plans were scuttled after Mr. Konigsberg received a late-night call from his lawyer telling him that he had been indicted. He drove back to New York to surrender.

Agents of the Federal Bureau of Investigation arrested him at 7 a.m. Thursday at his lawyers' Park Avenue offices. In the afternoon, he appeared in Federal District Court in Manhattan and pleaded not guilty to conspiracy and falsifying records and statements. Magistrate Judge Debra Freeman released him on a $2 million bond.

Reed Brodsky, a lawyer for Mr. Konigsberg, attacked the government's case. He said his client was an innocent victim of Mr. Madoff, and the fake account statements fooled Mr. Konigsberg along with everybody else. He also said Mr. Konigsberg lost $10 million of his own money in the fraud.

"In their witch hunt arising out of the largest Ponzi scheme in history, the government conveniently ignores that Bernie Madoff deceived everyone around him — from the most sophisticated investors to the S.E.C. itself," said Mr. Brodsky, a partner at Gibson Dunn & Crutcher. "He looks forward to clearing his good name at trial."

A founding partner of Konigsberg Wolf & Company, a midsize New York accounting firm that is now shuttered, Mr. Konigsberg had close business ties to Mr. Madoff dating to at least 1992, the government said. He was the only person outside the family to own an interest in Mr. Madoff's business, holding a small stake in his London unit.

The government faces a December deadline to bring additional charges connected to the Madoff case. When Mr. Madoff was arrested on Dec. 11, 2008, after confessing to his sons the night before, it started the clock ticking on a five-year statute of limitations to bring securities fraud accusations.

Federal prosecutors asked Mr. Konigsberg's lawyers to grant them an extension of the legal deadline, but they refused, leading to the government's indictment, said a person briefed on the case.

Mr. Madoff, 75, now serving a 150-year prison sentence, says he acted alone. Yet Mr. Konigsberg is the 15th individual criminally charged in the case; nine people, including Mr. Madoff, have pleaded guilty.

On Oct. 7, five of Mr. Madoff's former employees are scheduled to stand trial on charges that they aided the fraud. Each of the five — Daniel Bonventre, Annette Bongiorno, Joann Crupi, Jerome O'Hara and George Perez — worked at the firm for more than 15 years in a variety of low-level roles but ones the government said were crucial to carrying out Mr. Madoff's long-running fraud.

The trial is likely to last several months, and the defendants are expected to argue that they were manipulated and deceived by their boss.

Prosecutors are weighing additional criminal charges. Among those still under scrutiny is Shana Madoff Swanson, Mr. Madoff's niece and a former senior lawyer at the firm. Ms. Swanson's father, Peter Madoff, was Mr. Madoff's second in command and is serving a 10-year sentence after admitting that he falsified documents and lied to regulators.

The government is also examining the role of JPMorgan Chase. Mr. Madoff moved billions of dollars of investors' cash in and out of Chase bank accounts until his crimes were uncovered. Investigators are focused on whether the bank failed to conduct adequate due diligence and properly alert regulators, said people with knowledge of the investigation.

A JPMorgan spokesman declined to comment.

Cash losses from the Madoff fraud are estimated at about $17.5 billion, but the paper wealth that was wiped out across about 4,000 investment accounts was more than $64 billion. Irving H. Picard, a bankruptcy trustee, has recovered about $9.4 billion and continues to trace the victims' money.

Many of those victims were clients of Mr. Konigsberg's. Trained as a lawyer, Mr. Konigsberg, 77, received a degree from Brooklyn Law School and a master's in taxation from New York University School of Law. Mr. Konigsberg and his wife, Judith, live in Greenwich, Conn., and have a home in Palm Beach Gardens, Fla. The Konigsbergs socialized with Mr. Madoff and his wife, Ruth, once taking a ski vacation to the Swiss Alps with a group of Madoff associates.

In addition to the lucrative fees he received from his Madoff clients, Mr. Konigsberg also earned compensation directly from Mr. Madoff's firm, according to the indictment. Mr. Madoff paid him a monthly retainer of $15,000 to $20,000 for providing accounting services to one of his most important clients, the government said.

He worked for a number of Mr. Madoff's biggest investors, including Carl Shapiro, a Boston businessman, and Mr. Shapiro's son-in-law, Bob Jaffe, who recruited many Madoff investors in Palm Beach, Fla. In 2010, Mr. Shapiro, Mr. Jaffe and their family members, who held much of their money at JPMorgan Chase, agreed to forfeit $625 million in Madoff profits to the trustee and the Justice Department.

The indictment highlights instances of Mr. Konigsberg working with Mr. Madoff's firm to illegally backdate trades and create fictitious account activity to minimize his clients' tax burden.

In addition, the government said that Mr. Konigsberg arranged a no-show job at Mr. Madoff's firm for a relative who earned more than $320,000 over 17 years without ever working there, plus health benefits.

Mr. Konigsberg is the second outside accountant charged in the Madoff case. David G. Friehling, the longtime auditor for Mr. Madoff's firm, who worked out of a Rockland County strip shopping mall, has pleaded guilty but has yet to be sentenced.

JPMorgan Is Penalized $2 Billion Over Madoff

By BEN PROTESS and JESSICA SILVER-GREENBERG

January 7, 2014

Two men who occupy coveted roles in Manhattan's power elite, one the city's top federal prosecutor and the other its top banker, sat down in early November to discuss a case that was weighing on them both.

Preet Bharara, the United States attorney in Manhattan, and Jamie Dimon, the chief executive of JPMorgan Chase, gathered in Lower Manhattan as Mr. Bharara's prosecutors were considering criminal charges against Mr. Dimon's bank for turning a blind eye to the Ponzi scheme run by Bernard L. Madoff. Mr. Dimon and his lawyers outlined the bank's defense in the hopes of securing a lesser civil case, according to people briefed on the meeting.

But at the cordial meeting in Mr. Bharara's windowless conference room lined with law books, the prosecutors would not budge. Mr. Bharara — flanked by his own lieutenants, including Richard B. Zabel and Lorin L. Reisner — made it clear that he thought the wrongdoing was significant enough to warrant a criminal case.

On Tuesday, Mr. Bharara announced the culmination of that case, imposing a $1.7 billion penalty stemming from two felony violations of the Bank Secrecy Act, a federal law that requires banks to alert authorities to suspicious activity. The prosecutors, calling the amount a record for violating that 1970 federal law, will direct the money to Mr. Madoff's victims.

The outcome of the case and the tenor of the settlement talks underscore the significant leverage prosecutors wield when negotiating with Wall Street's biggest firms. Even though JPMorgan had defeated a similar private lawsuit just months earlier, bank executives were unwilling to gamble against the government.

Within weeks of meeting Mr. Bharara and recognizing their limited bargaining power, JPMorgan's lawyers accepted the $1.7 billion penalty, the people briefed on the meeting said, which was within the range that prosecutors initially proposed. The bank also agreed to pay $350 million to the Office of the Comptroller of the Currency, accepting the agency's only offer, one of the people said.

It could have been worse for the bank. At one point, prosecutors were weighing whether to demand that the bank plead guilty to a criminal charge, a move that senior executives feared could have devastating ripple effects. Rather than extracting a guilty plea, prosecutors struck a so-called deferred-prosecution agreement, suspending an indictment for two years as long as JPMorgan overhauls its controls against money-laundering.

Still, the size of the fine and the rarity of a deferred-prosecution agreement — such deals are scarcely used against giant American banks and are typically employed only when misconduct is extreme — reflect the magnitude of the accusations.

Having served as Mr. Madoff's primary bank for more than two decades, JPMorgan had a unique window into his scheme. In a document outlining the bank's wrongdoing, prosecutors argued that "the Madoff Ponzi scheme was conducted almost exclusively" through various accounts held at JPMorgan.

At a news conference on Tuesday, Mr. Bharara drew a direct line between Mr. Madoff's fraud and JPMorgan's failings, citing the bank for "repeatedly" ignoring warning signs.

"In part because of that failure, for decades Bernie Madoff was able to launder billions of dollars in Ponzi proceeds," Mr. Bharara said.

George Venizelos, a senior F.B.I. official, added that "JPMorgan failed to carry out its legal obligations while Bernard Madoff built his massive house of cards."

In a statement on Tuesday, a JPMorgan spokesman noted that the bank had poured significant resources into bolstering its controls, but acknowledged that it "could have done a better job pulling together various pieces of information and concerns about Madoff from different parts of the bank over time."

The spokesman, Joseph Evangelisti, also defended the bank's employees, saying, "We do not believe that any JPMorgan Chase employee knowingly assisted Madoff's Ponzi scheme." He added that "Madoff's scheme was an unprecedented and widespread fraud that deceived thousands, including us, and caused many people to suffer substantial losses."

The charges against JPMorgan, the result of an F.B.I. investigation that spanned several years, are emblematic of a broader problem among giant global banks: ignoring the warning signs of fraud. The case comes a year after HSBC, the large British bank, paid a $1.9 billion fine for enabling Mexican drug cartels to launder cash through its branches.

The case punctuated a sweeping investigation into the movement of tainted money through the American financial system, a crackdown that ensnared other large British banks like Standard Chartered and Barclays. Each of the banks received a deferred-prosecution agreement.

For JPMorgan, the Madoff case is the bank's latest steep payout to the government. In November, JPMorgan paid a record $13 billion to the Justice Department and other authorities over its sale of questionable mortgage securities in the lead-up to the financial crisis. All told, after paying these settlements, JPMorgan will have paid out some $20 billion to resolve government investigations over the last 12 months.

The payouts, which all but entirely resolve JPMorgan's Madoff problems, represent a mixed outcome for the bank. While the big-dollar sums are an embarrassment to a bank that once wielded greater influence in Washington, the settlements also allow JPMorgan to put the cases behind it. As JPMorgan continues to report robust profits, the cases are a distraction that the bank is aiming to resolve in rapid succession.

Yet the comptroller's office also noted on Tuesday that its investigation remained open. In a statement, it declared: "We will continue our oversight efforts and take further action as warranted."

And critics of Wall Street are unsatisfied, noting that Mr. Bharara's office opted to defer prosecution and did not charge any JPMorgan employees with wrongdoing.

"Banks do not commit crimes; bankers do," said Dennis M. Kelleher, the head of Better Markets, an advocacy group.

In taking aim at JPMorgan, prosecutors reached back two decades to show how the bank ignored warning signs about Mr. Madoff. When one arm of the bank considered a business deal with Mr. Madoff's firm in 1998, an employee remarked that the financier's returns were "possibly too good to be true," and that there were "too many red flags" to proceed. While those concerns were enough the scuttle the deal, they were never shared with compliance officers or regulators.

"The bank connected the dots when it mattered to its own profit, but was not so diligent otherwise when it came to its legal obligations," Mr. Bharara said at the news conference.

Another bank, identified in the statement of facts only as "Madoff Bank 2," did cut off ties to Mr. Madoff in 1996 and brought its concerns to authorities. Although the bank, which people briefed on the matter identified as Bankers Trust, now owned by Deutsche Bank, told prosecutors that JPMorgan "was notified" of the concerns, JPMorgan continued to work closely with Mr. Madoff.

After that, JPMorgan's ties to Mr. Madoff expanded, even as skepticism mounted. In 2007, when JPMorgan was pursuing derivatives deals linked to Mr. Madoff's so-called feeder-fund investors, the hedge funds that invested their clients' money with him, one executive remarked that he had heard about a “well-known cloud over the head of Madoff and that his returns are speculated to be part of a Ponzi scheme.”

JPMorgan’s private bank also issued internal warnings about Mr. Madoff when considering an investment on behalf of its clients. The unit, prosecutors say, balked when Mr. Madoff refused to meet as part of the bank’s due diligence efforts.

On two occasions, in 2007 and 2008, JPMorgan’s own computer system also raised red flags about Mr. Madoff, according to prosecutors. But both times, JPMorgan employees “closed the alerts.”

It was not until October 2008 that JPMorgan alerted authorities — in Britain — to concerns that his firm’s investment returns were “so consistently and significantly ahead of its peers” that the results “appear too good to be true.” But JPMorgan never provided a similar warning to authorities in Washington, a violation of the Bank Secrecy Act.

On the day of Mr. Madoff’s arrest in December 2008, a JPMorgan employee wrote to a colleague: “Can’t say I’m surprised, can you?” The colleague replied: “No.”

Jury Says 5 Madoff Employees Knowingly Aided Swindle of Clients' Billions

By RACHEL ABRAMS and DIANA B. HENRIQUES

March 24, 2014

A federal jury on Monday found five associates of the convicted swindler Bernard L. Madoff guilty of 31 counts of aiding one of the largest Ponzi schemes in history.

With that verdict, the jurors rejected the former employees' central defense: that only Mr. Madoff had known the evil purpose behind the chores he told them to carry out, while they had simply trusted for decades in the honesty of a man widely known and respected on Wall Street.

"There's really no dispute here that there was a massive criminal conspiracy," John T. Zach, an assistant United States attorney, told the jury early this month, in the closing weeks of a trial that had lasted more than five months.

The only question, he said, was whether the defendants knowingly committed fraud to help Mr. Madoff sustain that criminal enterprise. "So let me state it to you as clearly as I can," he said: "The defendants knew that fraud was going on at Madoff Securities."

Prosecutors said that the two portfolio managers on trial, JoAnn Crupi and Annette Bongiorno, as well as the firm's operations director, Daniel Bonventre, conspired in various ways to lie to customers, cheat on taxes and falsify records at Bernard L. Madoff Investment Securities, the firm Mr. Madoff founded in the early 1960s. The government also accused two computer programmers, Jerome O'Hara and George Perez, of helping sustain the $17 billion Ponzi scheme by knowingly creating computer programs that could create fake trades and records.

Each of the five defendants faces decades in prison, although the ultimate sentences will be the decision of Judge Laura Taylor Swain of Federal District Court in Lower Manhattan, who presided over the complex trial.

"These convictions, along with the prior guilty pleas of nine other defendants, demonstrate what we have believed from the earliest stages of the investigation: This largest-ever Ponzi scheme could not have been the work of one person," said Preet Bharara, the United States attorney in Manhattan, whose office brought the case.

"The trial established that the Madoff fraud began at least as far back as the early 1970s, decades before it came to light," Mr. Bharara said. "These defendants each played an important role in carrying out the charade, propping it up and concealing it from regulators, auditors, taxing authorities, lenders and investors."

While lawyers for the defense claimed that their clients did not knowingly participate in any of the deception, their arguments were challenged by testimony from Frank DiPascali Jr., Mr. Madoff's closest ally and co-conspirator in the long-running fraud. Mr. DiPascali pleaded guilty in August 2009 and has been cooperating since then with federal prosecutors in hopes of reducing the 125-year prison term he faces for his own pivotal role in the Ponzi scheme.

Mr. DiPascali's testimony last December provided some of the most riveting hours of the lengthy trial, held in the stately ceremonial courtroom where Mr. Madoff was sentenced in June 2009.

A fluent witness, Mr. DiPascali gave the jury simple explanations for the arcane paperwork involved in the fraud and gave riveting accounts of moments of crisis the conspirators faced over the years.

On one occasion, he told the jury, a visiting auditor asked to see a trading ledger that would back up the firm's claims about the securities it owned for the auditor's client. There was no such ledger — there were no securities in the client's account, Mr. DiPascali said.

By his account, he kept the auditor diverted through the afternoon while several defendants created the fake ledger. When it came hot off the office printer, they cooled it in the office refrigerator and then tossed it around "like a medicine ball" to give it the well-worn look that a legitimate ledger would have, he said.

He also claimed that the defendants were well aware that Mr. Madoff's firm was providing a "second set of books and records" to the Securities and Exchange Commission and routinely backdating the fictitious trades that showed up on customer accounts — a practice that he said had been going on at least since the late 1970s.

Lawyers for the five former employees had argued that Mr. DiPascali's self-interest — he hopes for a more lenient sentence — undermined his credibility. In his closing remarks, Larry H. Krantz, one of the defense lawyers, said that Mr. DiPascali lied to Mr. Perez and Mr. O'Hara "over and over again in order to trick them into working on the projects that he needed them to work on," according to court records.

Gordon Mehler, the lawyer for Mr. O'Hara, said on Monday, "The jury has spoken, but we are very disappointed, of course." Mr. Mehler said he planned to appeal.

Eric R. Breslin, who defended Ms. Crupi, had a similar reaction. "While we understand and respect the jury's verdict, we are obviously extremely disappointed by it," he said. "We believe there is and remains compelling evidence in Ms. Crupi's favor and we will continue to press her case forward."

Mr. Krantz, the lawyer for Mr. Perez, said in an email, "We will continue to fight as hard as we can on George Perez's behalf through sentencing and appeal."

And Andrew Frisch, who represented Mr. Bonventre, said in an email: "We are disappointed and will appeal. The list of Bernard Madoff's victims now includes these five former employees."

Roland G. Riopelle, who represented Ms. Bongiorno, declined to comment.

Mr. Madoff's brother, Peter B. Madoff, who worked alongside his brother for nearly four decades, pleaded guilty in June 2012 to tax and securities fraud charges, but was not accused of knowing about the Ponzi scheme. In December 2012, he was sentenced to 10 years in prison.

Counting the Madoff brothers and Mr. DiPascali, nine defendants have pleaded guilty to charges related to the fraud. Monday's verdict adds five more names to the roster of those convicted in the five-year-old investigation, for a total of 14.

The trial of the five longtime staff members gave the government its first opportunity to lay out all the evidence it collected in the years after the collapse of Madoff Securities. Madoff Securities failed in 2008 after Mr. Madoff confessed to his sons about the swindle. He is currently serving 150 years in prison.

The day Mr. Madoff was arrested, his customers believed their accounts contained a total of $64.8 billion.

According to the bankruptcy trustee, Irvin H. Picard, investors actually lost about $17.3 billion in cash principal — money put in their Madoff accounts and never withdrawn. Through civil litigation and government forfeiture settlements, Mr. Picard and federal prosecutors have recovered about $11 billion to compensate eligible victims.

Mr. Madoff's clients included individual investors as well as a number of philanthropic institutions, including the foundation started by the Nobel Peace Prize winner Elie Wiesel, which lost more than $15 million.

Although the five aides could face extended prison sentences, Samuel W. Buell, a professor of law at Duke University, said he would be "very surprised if a federal judge thought it was appropriate to sentence somebody like this to several decades in prison."

Andrew Madoff, Who Told of His Father’s Swindle, Dies at 48

Andrew H. Madoff in his apartment in Manhattan in 2011. (Chang W. Lee/The New York Times)

By DIANA B. HENRIQUES

September 3, 2014

Andrew H. Madoff, the last surviving son of the convicted swindler Bernard L. Madoff, died on Wednesday in a Manhattan hospital, where he had been undergoing treatment for cancer. He was 48.

A family lawyer, Martin Flumenbaum, said the cause was mantle-cell lymphoma, for which Mr. Madoff had been treated since early 2013. His older brother, Mark, committed suicide in 2010.

The two brothers attracted worldwide attention in December 2008 after they alerted federal agents that their father, a respected Wall Street statesman, had confessed to them that his private investment management business was a vast Ponzi scheme. Based on that report, the senior Mr. Madoff was arrested the next morning, Dec. 11, 2008.

After the arrest, it became clear that his fraud was one of the largest Ponzi schemes in history, with paper losses of almost $65 billion, cash losses of about $17 billion and tens of thousands of victims ranging from Swiss private bankers to labor union pension funds to notable charities and universities.

Bernard Madoff, 76, pleaded guilty in March 2009 and is serving a 150-year sentence in a federal prison in North Carolina.

Andrew Madoff was born on April 8, 1966, and grew up in Roslyn, on Long Island. He joined his father’s closely held wholesale trading house, Bernard L. Madoff Investment Securities, right after graduating from the Wharton School at the University of Pennsylvania in 1988. He worked alongside his brother at the firm’s trading desk in the Lipstick Building, on Third Avenue near 53rd Street, two floors away from the secretive money management operation at the heart of his father’s long-running fraud.

After Bernard Madoff’s arrest, both sons denied any knowledge of the scheme, which federal prosecutors later said had probably begun when they were children. No criminal charges were ever filed against them.

But civil litigation filed by the bankruptcy trustee seeking assets for their father’s victims accused them of knowing about the fraud or deliberately turning a blind eye to it. In the only judgment rendered so far, a British judge in 2013 rejected the trustee’s case there against the Madoff sons, affirming their “honesty and integrity” and ruling that there was no evidence that they were involved in the crime.

Neither of his sons ever visited the senior Mr. Madoff after his arrest, and just last year, Andrew Madoff told a writing seminar at Princeton University, “My father is dead to me.” In an earlier interview, he told The New York Times that his father’s fraud was “a father-son betrayal of biblical proportions.”

But the suspicion and harsh publicity that followed the arrest became a heavy burden for the family. In December 2010, on the second anniversary of the arrest, Mark Madoff hanged himself in his Manhattan apartment, sending a last note to Mr. Flumenbaum contending that “no one wants to believe the truth.”

Andrew, too, acknowledged the damage the case inflicted on him, blaming it for the return in December 2012 of the cancer he had fought off in 2003. “One way to think of this is the scandal and everything that happened killed my brother very quickly,” he said in a People magazine interview last year. “And it’s killing me slowly.”

But unlike his brother, Andrew refused to cringe from the spotlight or hide from critics. He helped his fiancée, Catherine Hooper, build a consulting firm to advise others on dealing with life-shattering developments. He joined with Ms. Hooper and his mother, Ruth Madoff, in promoting an authorized family biography, which was published in fall 2011. When his cancer returned, he detailed his experience with stem-cell transplant treatments in a private blog made available to family and friends.

After a series of optimistic reports, the final blog post, dated Aug. 9, noted that he had been hospitalized again but also said that he and Ms. Hooper had taken advantage of the summer's beautiful weather to take several hiking trips. "Getting away from the city crowds and breathing fresh, clean air is a godsend for me," he wrote. "I can feel my body healing as I drink it in."

Besides his fiancée, Mr. Madoff is survived by his mother, his father and two daughters from a former marriage, Anne and Emily.

Ex-Secretary to Madoff Is Sentenced to Six Years in Prison

By JAMES C. McKINLEY Jr.

December 9, 2014

She was a 19-year-old high school graduate with no skills other than shorthand and typing when she went to work as a personal secretary.

Over the years, the woman, Annette Bongiorno, was given more responsibilities, a six-figure salary and big bonuses by her boss, Bernard L. Madoff. By the time Mr. Madoff was arrested in December 2008, she was overseeing others and handling the books for hundreds of investment advisory accounts.

On Tuesday, Ms. Bongiorno, 66, stood before a federal judge in Manhattan, having been convicted last March of conspiracy, securities fraud and other charges, along with four other associates of Mr. Madoff's.

Under federal guidelines, she faced a life sentence. Her voice quavered and she broke into tears as she rose and told Judge Laura Taylor Swain she was also a victim of Mr. Madoff's. She apologized to the people who lost their savings in the $17 billion fraud, saying she was ashamed she had worked for Mr. Madoff for decades and "never figured out the truth."

"I did what I was told," she said. "I didn't know what was going on."

"Still I apologize to the victims for believing in him," she said, weeping. "I realize my ignorance is no excuse."

Judge Swain sentenced Ms. Bongiorno, of Manhasset, on Long Island, to six years in prison, far less than the maximum penalty prosecutors had sought, less than the 20 years federal probation officials had recommended — even less than the eight years her lawyer had proposed.

The judge said Ms. Bongiorno should have known Mr. Madoff's financial success was a sham and that she was breaking the law when she fabricated and backdated fictitious trades on her boss's orders.

Judge Swain said Ms. Bongiorno was not fundamentally corrupt and could not be described as a "coldly calculating, knowing participant" in the fraud. "She was a pampered, compliant and grossly overpaid clerical worker," the judge said.

The judge noted Ms. Bongiorno had carefully preserved incriminating records for decades that she might have destroyed, suggesting she did not fully understand the fraud. “Ms. Bongiorno was not a mastermind or an architect of the Ponzi in the Ponzi scheme,” she said. “She followed instructions.”

Still, the judge said Ms. Bongiorno had “willfully blinded herself,” starting in 1992, to illegal acts she was being told to carry out, all in return for a luxurious lifestyle. “She relied on Madoff’s blessing, rather than apply her own good sense and moral compass,” the judge said.

Evidence at trial showed Ms. Bongiorno managed the books for hundreds of investment accounts having an accumulative balance of about $8.5 billion when the firm went under.

Prosecutors said Ms. Bongiorno and another manager, JoAnn Crupi, invented fictitious trades that existed only on paper, based on prices of securities reported by The Wall Street Journal and Bloomberg, to support high annual rates of return Mr. Madoff had promised investors. They backdated the purchase dates of the fake trades to inflate the gains reflected in the investment advisory accounts. Ms. Bongiorno was also convicted of filing false income tax returns.

Before the sentencing, John T. Zach, an assistant United States attorney, said Ms. Bongiorno could have walked away from the firm. “She made a deliberate decision to participate in this fraud,” he said.

Mr. Madoff, who ran the firm with a brother and two sons, is currently serving a sentence of 150 years in prison after pleading guilty to fraud and other charges in March 2009. In June 2012, his brother, Peter B. Madoff, also pleaded guilty to security fraud and tax evasion charges, receiving a sentence of 10 years.

Seven other employees of the company have pleaded guilty in the scheme. One of them, Frank DiPascali Jr., gave critical testimony at the trial of Ms. Bongiorno. Also convicted at trial with Ms. Bongiorno were Ms. Crupi; the firm’s operation director, Daniel Bonventre; and two computer programmers. Mr. Bonventre was sentenced to 10 years in prison on Monday.

Ms. Bongiorno was ordered to surrender to a minimum-security federal prison in Coleman, Fla., on Feb. 19. She also must forfeit all the property and money she had acquired through her employment at Madoff Securities, starting in 1992, a sum her defense lawyer, Roland G. Riopelle, said was about $14.6 million.

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