

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

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IN THE MATTER OF: BERNARD L. MADOFF )  
\_\_\_\_\_)

FILE NO. 0800608

**SUMMARY ORDER OF SUSPENSION**

**TO THE RESPONDENT:** Bernard L. Madoff  
(CRD#: 316687)  
133 East 64<sup>th</sup> Street  
New York, NY 10021

Bernard L. Madoff Investment Securities, LLC  
(CRD #2625)  
885 Third Avenue  
New York, NY 10022

On information and belief, I, Jesse White, Secretary of State for the State of Illinois, through my designated representative, who has been fully advised in the premises by the staff of the Securities Department, Office of the Secretary of State, herein find:

1. That at all relevant times, the Respondent Bernard L. Madoff (“Madoff, or together with Respondent BMIS, “Respondents”) was registered with the Illinois Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act from March 17, 1997 to the present.
2. That at all relevant times, the Respondent Bernard L. Madoff Investment Securities, LLC (“BMIS”) was registered with the Illinois Secretary of State as a Dealer in the State of Illinois pursuant to Section 8 of the Act from March 13, 1997 to the present.
3. That on December 11, 2008 the Securities and Exchange Commission (SEC) filed a Complaint against Respondents in the U.S. District Court for the Southern District of New York, which made the following allegations:
  - a. The Commission brings this emergency action to halt ongoing fraudulent offerings or securities and investment advisory fraud by Madoff and BMIS, a broker dealer and investment adviser registered with the Commission. From an indeterminate period through the present, Madoff and BMSi has committed fraud through the investment adviser activities of BMIS. Madoff admitted to one or more employees of BMIS that for many years

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he has been conducting a Ponzi-scheme through the investment adviser activities of BMIS and that BMIS has liabilities of approximately \$50 billion. Madoff told these employees that he intends to distribute any remaining funds at BMIS to employees and certain investors in the investment advisor business, such as family and friends. Such a distribution will be unfair and inequitable to other investors and creditors of BMIS.

- b. Expedited relief is needed to halt the fraud and prevent the Respondents from unfairly distributing the remaining assets in an unfair and inequitable manner to employees, friend and relatives, at the expense of other customers.
  - c. To halt the ongoing fraud, maintain the status quo and preserve any assets for injured investors, the Commission seeks emergency relief, including temporary restraining orders and preliminary injunctions, and an order:
    - (i) imposing asset freezes against the Respondents;
    - (ii) appointing a receiver over BMIS;
    - (iii) allowing expedited discovery and preventing the destruction of documents; and
    - (iv) requiring the Respondents to provide verified accountings.The Commission also seeks permanent injunctions, disgorgement of ill-gotten gains, plus prejudgment interest and civil monetary penalties against all of the Respondents.
  - d. By virtue of the conduct alleged herein: All Respondents directly or indirectly, singly or in concert, have engaged, and are engaging, in acts, practices, schemes and courses of business that constitute violations of Section 206(1) and 206(2) of the Advisers Act of 1940 ("Advisers Act") [15 U.S.C. 80b-6(1), (2)], and Section 17(a) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. 77q(a) and Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. 240.10b-5.
4. That in the Complaint the SEC sought the following relief:
- a. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. 77t(b), and the Section 21(d)(1) of the Exchange Act, 15 U.S.C. 78u(d)(1), seeking to restrain and enjoin permanently the Respondents from engaging in the acts, practices and courses of business alleged herein.

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- b. In addition to the injunctive and emergency relief recited above, the Commission seeks:
- (i) final judgments ordering Respondents to disgorge their ill-gotten gains with prejudice interest thereon; and
  - (ii) final judgments ordering the Respondents to pay civil penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. 77t(d), and Section 21(d)(3) of the Exchanges Act, 15 U.S.C. 78u(d)(3).
5. That the Commission supported their allegations with the following facts:

### **The Respondents**

- a. Madoff is a resident of New York City and is the sole owner of BMIS. BMIS' website indicates that Madoff founded BMIS in the early 1960s and that he is an attorney. Madoff is a former Chairman of the board of directors of the NASDAQ stock market. BMIS is both a broker-dealer and investment adviser registered with the Commission. Madoff oversees and controls the investment adviser services at BMIS as well as the overall finances of BMIS.
- b. BMIS is a broker-dealer and investment advisor registered in both capacities with the Commission. BMIS engages in three different operations, which include investment adviser services, market making services and proprietary trading. BMIS's website states that it has been providing quality executions for broker-dealers, banks and financial institutions since its inception in 1960; and that BMIS, "[w]ith more than \$700 million in firm capital, Madoff currently ranks among the top 1% of US Securities firms." The most recent Form ADV for BMIS filed in January 2008 with the Commission stated that BMIS had over \$17 billion in assets under management, and 23 clients. BMIS represented that its trading strategy for adviser accounts involved trading in baskets of equity securities and options thereon.

### **Facts**

- c. From an indeterminate time to the present, Madoff and BMIS have been conducting a Ponzi-scheme through the investment adviser services of BMIS.
- d. Madoff conducts certain investment advisory business for clients that is separate from the BMIS's proprietary trading and market making activities.

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- e. Madoff ran his investment adviser business from a separate floor in the New York office in BMIS.
- f. Madoff kept the financial statements for the firm under lock and key, and was “cryptic” about the firm’s investment advisory business when discussing the business with other employees of BMIS.
- g. In or about the first week of December 2008, Madoff told a senior employee that there had been requests from clients for approximately \$7 billions in redemptions, that he was struggling to obtain the liquidity necessary to meet those obligations, but that he thought that he would be able to do so. According to this senior employee, he had previously understood that the investment advisory business had assets under management on the order of between approximately \$8-15 billion.
- h. On or about December 9, 2008, Madoff informed another senior employee that he wanted to pay 2008 bonuses to employees of the firm in December, which was earlier than employees’ bonuses are usually paid.
- i. Bonuses traditionally have been paid at BMIS in February of each year for the previous year’s work.
- j. On or about December 10, 2008, the two senior employees referenced above visited Madoff at the offices of BMIS to discuss the situation further, particularly because Madoff had appeared to these two senior employees to have been under great stress in the prior weeks.
- k. At that time, Madoff informed the senior employees that he had recently made profits through business operations, and that now was a good time to distribute it. When the senior employee challenged his explanation, Madoff said that he did not want to talk to them at the office, and arranged a meeting at Madoff’s apartment in Manhattan. At that meeting Madoff stated, in substance, that he “wasn’t sure he would be able to hold it together” if they continued to discuss the issue at the office.
- l. At Madoff’s Manhattan apartment, Madoff informed the two senior employees, in substance, that his investment advisory business was a fraud. Madoff stated that he was “finished,” that he had “absolutely nothing,” that “it’s all just one big lie,” and that it was “basically, a giant Ponzi scheme.” In substance, Madoff communicated to the senior employees that he had for years been

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paying returns to certain investors out of the principal received from other, different, investors. Madoff stated that the business was insolvent, and that it had been for years. Madoff also stated that he estimated the losses from this fraud to be approximately \$50 billion. One of the senior employees has a personal account at BMIS in which several million had been invested under the management of Madoff.

- m. At Madoff's Manhattan apartment, Madoff further informed the two senior employees referenced above that, in approximately one week, he planned to surrender to authorities, but before he did that, he had approximately \$200-300 million left, and he planned to use that money to make payments to certain selected employees, family, and friends.
6. That on December 12, 2008, on the Emergency Application of the SEC for an Order and upon consent of Defendants Madoff and BMIS to an order the U.S. District Court for the Southern District of New York entered against Respondents Order to Show Cause. Temporary Restraining Order, and Order Freezing Assets and Granting Other Relief.
7. That in granting the emergency application of Plaintiff Securities and Exchange Commission the Court considered:
- (1) the Complaint filed by the Commission on December 11, 2008;
  - (2) the sworn statement of Theodore Cacioppi, executed December 11, 2008;
  - (3) the Declaration of Alex Vasileseu Pursuant to Local Rule 6.1 executed December 11, 2008; and
  - (4) the memorandum of law in support of the Application. Based upon the foregoing documents, the Court finds that a proper showing, as required by Sections 20(b) of the Securities Act, Section 21(d) of the Exchange Act, and Section 209 of the Advisers Act has been made for the relief granted herein, for the following reasons.

### **Findings of Law**

- a. It appears from the evidence presented that Respondents have violated and unless temporarily restrained, will continue to violate, Section 17(a) of the Securities Act, Section 10(b) of the Exchange act, Exchange Act Rule 10b-5, and Sections 206(1) and 206(2) of

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the Advisers Act, as charged in the Complaint.

- b. It appears from the evidence presented that certain ill-gotten gains derived from the Respondent's fraudulent conduct have been deposited into the accounts of BMIS and/or Madoff's personal accounts.
- c. It appears from the evidence presented that BMIS is under the control of Madoff, its founder.
- d. It appears that Respondents may attempt to dissipate or transfer from the jurisdiction of this Court, funds, property and other assets that could be subject to an order of disgorgement or an order imposing civil penalties.
- e. It appears that an order freezing Respondent's assets, as specified herein, is necessary to preserve the status quo and to protect this Court's ability to award equitable relief in the form of disgorgement of illegal profits from fraud and civil penalties, and to preserve the Court's ability to approve a fair distribution for victims of the fraud.
- f. It appears that an order requiring Respondents to provide a verified accounting of all assets, money and property held directly or indirectly by the Defendants, or by others for Defendants' direct and indirect beneficial interest is necessary to effectuate and ensure compliance with the freeze imposed on the Defendants' assets.
- g. It appears that an order prohibiting Respondents and their partners, agents, employees, attorneys, or other professionals, anyone acting in concert with them or on their behalf, and any third party, from filing a bankruptcy proceeding against the Respondents without filing a motion on a least three (3) days' notice to the Plaintiff, and approval of this Court after a hearing, is necessary to preserve the status quo and to preserve the Court's ability to approve a fair distribution for victims of the fraud.
- h. It appears that the appointment of a receiver for the assets of BMIS is necessary to
  - (iii) preserve the status quo.
  - (iv) ascertain the extent of commingling of funds between Madoff and BMIS;
  - (v) ascertain the true financial condition of BMIS and the disposition of investor funds;
  - (vi) prevent further dissipation of the property and assets of

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- BMIS;
- (vii) prevent the encumbrance or disposal of property or assets of BMIS and the investors;
  - (viii) preserve the books, records and documents of BMIS;
  - (ix) respond to investor inquiries;
  - (x) protect the assets of BMIS from further dissipation;
  - (xi) determine whether BMIS should undertake bankruptcy filings; and
  - (xii) determine the extent to which the freeze should be lifted as to certain assets in the custody of BMIS.
- i. Good and sufficient reasons have been shown why procedure other than by notice of motion is necessary.
  - j. This Court has jurisdiction over the subject matter of this action and over Defendants, and venue properly lies in this District.
8. That Section 8.E(1)(k) of the Act provides, *inter alia*, that the registration of a salesperson, or dealer may be suspended if the Secretary of State finds that such salesperson, or dealer has had any order entered against it after notice and opportunity for hearing by a securities agency of any state, any foreign government or agency thereof, the Securities and Exchange Commission, or the Federal Commodities Futures Trading Commission arising from any fraudulent or deceptive act or a practice in violation of any statute, rule, regulation administered or promulgated by the agency or commission.
9. That by virtue of the foregoing, the Respondent Madoff's registration as a salesperson, and Respondent BMIS's registration as dealer in the State of Illinois are subject to suspension pursuant to Sections 8.E(1)(k) of the Act.

NOW THEREFORE IT IS HEREBY ORDERED THAT: pursuant to the authority granted by Section 11.F of the Act, Respondent's registration as a SALESPERSON is SUSPENDED in the State of Illinois effective immediately until the further Order of the Secretary of State.

NOW THEREFORE IT IS HEREBY ORDERED THAT: pursuant to the authority granted by Section 11.F of the Act, Respondent's registration as a DEALER is SUSPENDED in the State of Illinois effective immediately until the further Order of the Secretary of State.

NOTICE is hereby given that the Respondent may request a hearing on this matter by transmitting such request in writing to the Director, Illinois Securities Department, 69 West Washington Street, Suite 1220, Chicago, Illinois 60601. Such request must be made within thirty (30) days of the date of entry of this Summary Order of Suspension. Upon receipt of a request for hearing, a hearing will be scheduled as soon

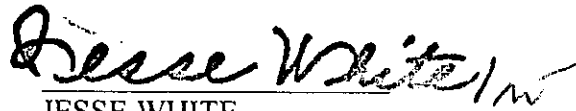
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as reasonably practicable. A request for hearing will not stop the effectiveness of this Summary Order and will extend the effectiveness of this Summary Order for sixty days from the date the hearing request is received by the Department.

FAILURE BY ANY RESPONDENT TO REQUEST A HEARING WITHIN THIRTY (30) CALENDAR DAYS AFTER ENTRY OF THIS SUMMARY ORDER OF SUSPENSION SHALL CONSTITUTE AN ADMISSION OF ANY FACTS ALLEGED HEREIN AND CONSTITUTES SUFFICIENT BASIS TO MAKE THE SUMMARY ORDER OF SUSPENSION FINAL.

Dated: This 30<sup>th</sup> day of December 2008.



JESSE WHITE  
Secretary of State  
State of Illinois

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