Ponzi Scheme – Madoff Scandal

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A) How does the fraud work?

Ponzi Scheme:

- History:
  - named after Charles Ponzi
  - offered high and consistent returns by using money from new investors to pay off earlier investors
  - prison in 1910
- Definition:
  - lure investors by promising high returns on their investment
  - continual attraction of new investors when new investors fail to materialize

→ the operation runs out of money and fails

B) Consequences

- Fraud and Ponzi schemes are serious crimes, and they carry serious consequences.
- The amount of money involved will have some effect on the sentence.
- The penalties can be decades in prison and fines equaling the amount stolen.

B) Consequences

- Rare that the legal consequences are limited to the perpetrator alone
- Any person/entity that funded the scheme, even unknowingly, is at risk
- Risk of not getting money back, because once the activity stops the money is gone

C) Brief history of the case

- Madoff started his firm with 5 thousand dollars
- In 1960 the Bernard L. Madoff Investment Securities is founded
- The firm employed Madoff's brother Peter as Senior Managing Director and Peter's daughter Shana Madoff as rules and compliance officer. Also his sons, Andrew and Mark are involved in the firms as well.
- The Madoff firms began using innovative computer information technology to disseminate quotes.
- At one point, Madoff securities was the largest buying-and-selling "market maker" at the NASDAQ

E) What happened to the company/person implied?

Consequences for *Madoff & Family:*

- **March 12, 2009** - Madoff pleads guilty to eleven felony charges
- **June 29, 2009** - Madoff is sentenced to 150 years in prison.
- **October 2, 2009** - A $199 million lawsuit is filed against Madoff's sons, his brother and his
- **December 11, 2010** - Mark Madoff, 46, commits suicide.

Consequences for *the investment community:*

- Securities and Exchange Commission (SEC) began taking steps to combat similar scandals and protect future investors.
- One of the first initiatives: Dodd-Frank Act

F) new regulations implemented

Investors

- Investors should have the regular knowledge of investment.
- build the awareness of risk prevention and management

Markets

- Strengthen the market evaluation, regulation and related institution (NGO) supervision of the transparency of investment products
- Improve the contractual supervision of intermediaries on investment products