



Bernie Madoff- The fraud that shook the Financial markets across the Globe- A Case Study

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Abstract

The year 2008 beheld one of the prevalent and most bizarre corporate deceptions the world had ever perceived. Bernie Madoff was accused of fraudulently double-dealing investors for the last 30 years. Finally, on 29th July, he was penalized to 150 years of incarceration with a penalty of \$170 billion. He had embittered thousands of investors and had been running a Ponzi scheme. The net worth of the entire fraud was estimated at around \$65 billion which converts to 4,50,000 crore INR in the present day. The study delivers a thorough and comprehensive insight into the case with the various motives for the case being concealed for years. The meticulous timeline of the case has also been provided for better understanding and conception of the readers.

Keywords: Corporate Deception, Double-dealing, incarceration, Ponzi scheme, Timeline

The year was 1960 when an American individual named Bernie Madoff established the Bernard L. Madoff Investment Securities LLC. The business was quite money-making in the preliminary years. The investment house assured judicious but balanced returns on investments to investors. Soon, the investment house drew the courtesy of many well to do investors as it was unremittingly delivering onto its aptitudes of regular returns. The official version from the concerned investment house was that it was investing in penny stocks. In this regard, it is worth understanding the concept of penny stocks. Penny stocks are those stocks that are from trivial companies and regarding which very little or no financial evidence is accessible in the markets. Investing in these stocks is quite dicey.

The Inauguration

As specified earlier, Bernie Madoff was a well-known individual in the United States of America. He had been employed in the capital markets for years. He used his goodwill and repute to draw consideration of the investors in his investment company. In the initial years the company provided healthy yields to its investors therefore the company's standing grew among the investor's guild. The company was well-reputed as a proficient money management institute by the end of 1970. Bernie Madoff propagated his domain in such a manner that within a short period his company only accepted funds from selective investors with a good market reputation. By the end of the next ten years, his firm was regarded as a premium investment firm across the country. Bernie Madoff hired his brother Peter as the Senior Managing Director of the company. Peter's daughter Shana was also employed as the compliance officer and attorney of the firm. Bernie Madoff had two sons named Mark and Andrew who were also employed in the firm. However little did people know that the Madoff family was scheduled to execute the biggest Ponzi scheme the world ever beheld? The amount of fraud that was committed by a single individual would for once make even the calculators blip. In this regard, it is worth comprehending what a Ponzi scheme is. A Ponzi scheme is a scheme in which an investor is made to consider that he is being paid handsome returns on his investments and his dosh is being invested in shares. However, in reality, his return is nothing but the investment of another depositor. It is a vicious monetary circle that the investor is wedged in. The returns are nothing but duplicitous and make-believe in nature. The term 'Ponzi scheme' has been coined by an infamous fraudster Charles Ponzi who used to pay returns on investment of one investor from the investments of another. This phenomenon first started in full swing in the 1920s.

The Fraud

As discoursed prior, Bernie Madoff started his fraudulent practices from the mid of the 1980s. In the early days, the company had congregated enough goodwill to encash on the same. Now, Bernie Madoff started to articulate to his investors that instead of providing higher returns he would guarantee that a moderate rate of return is given on investments through his firm. The rate of return had been 12%-13% on average. He further supplemented that no matter what circumstances there may be in the markets, his rate of return would be immobile and would not alter with changes in market mechanisms. What happens with most Ponzi schemes is that they promise enormously high returns on investments which at times lead to distrust among the investors. However, Bernie Madoff vowed a moderate rate of return so no eyes were raised at his scheme. However, his plans started to backfire at him in the dawn of 1987 when the share market started to face a huge monetary predicament. In this regard, it is worth observing that in an investment firm, there are more investments than there are withdrawals. This is exactly what Bernie Madoff started to do. As he could not keep up with his promise of generous returns to his investors he started falsifying trading and transaction receipts and being mendacious to them. He simply gave returns to investors from the investments of other investors. Moreover, instead of investing the money he acknowledged from the investors, he started keeping them to himself for private use. As per the official records, the net worth of the fraud committed by Bernie Madoff and his associates is estimated roughly to 65 billion US dollars which equals 4,50,000 crore Indian Rupees. This has been regarded as the biggest financial fraud the human race has ever witnessed. It is a fact of great revelation that most Ponzi schemes run for an average period of 4 to 5 years after which they are generally busted while Bernie Madoff's scheme lasted for almost thirty long years before being spotted. This is the reason why reputed companies and institutions such as BNP Paribas, HSBC, Royal Bank of Canada, Royal Bank of Scotland, etc. had been the victims of the scam.

Beginning of the End

As detailed former that the business in which Bernie Madoff dealt, involved more investments and fewer withdrawals. Generally, after investing, investors used to keep their funds with Bernie Madoff for a considerable time before probing for a withdrawal. This made it easy for the imposter to fool his customers and carry on his scam for as long as 30 years. However, in 2008 the country again faced a huge financial crisis and there was no new investor to invest in Bernie's firm. On the other hand, thousands of withdrawal requests started to pop-in to make positions worse for Bernie. By the end of thanksgiving in the year 2008, Bernie Madoff realized that his trade was at the brink of bankruptcy and it was unmanageable to carry out this scam any longer. Therefore, supposedly on 10th December 2008, he unveiled his entire fraud to his two sons Mark and Andrew who knew nothing about this parallel sham business of their father. Soon the media got interested in the matter and when investors realized that they would not obtain a penny from the investment firm, many of them committed suicide. This raised havoc in the financial markets and the regulatory authorities started making groundings for the arrest of Bernie Madoff. The next day, that is the 11th of December 2008, Bernie Madoff was arrested. On 11th March 2009, the concerned fraudster pleaded guilty to eleven crimes and accepted that he had been operating a huge Ponzi scheme for the last 30 years. The prosecuting attorney estimated that the total fraud amounted to nearly \$65 billion. Further investigations revealed that he had tricked more than 4500 investors till November 2008. The company was shut down immediately and the SEC was under immense compression and reproach. This was a real embarrassment that an individual pulled-off such a financial crime below the nose of the authorities and he kept on doing it for thirty years. The confirmation of the fraud came as a great shudder to the country as the accused was a former NASDAQ chairman. In this case, Harry Markopolos was the whistle-blower who made the authorities aware that a horrific fraud was being carried out. Earlier in 2005, Markopolos made the established order aware that Madoff was at the brink of bankruptcy.

The Aftermath

Proximately after the discovery of the fraud, Madoff was arrested. Many investors committed suicide as they were completely financially broke by then. The accused pleaded guilty for 11 state delinquencies that were charged against him and was sentenced to 150 years of imprisonment on 29th June 2009. He was also subjected to reimbursement of \$170 billion. This was a huge judgment and the entire capital market turned upside down when such a verdict was passed. Peter, the brother of Bernie was also penalized to 10 years of imprisonment. The elder lad of Bernie Madoff committed suicide two years after the arrest of his father in 2010. This was an utmost catastrophe that an individual had brought upon himself and his family along with the entire business community. According to a theory near about \$35 billion that Madoff had pinched from his clients never really existed. He simply falsified the statements of his company to make vague reports. When Madoff was asked that why had he committed such a fraud, he responded that he wanted to give healthy and steady returns to his clients and keep them contented but the financial crisis in 1987 did not allow him to provide regular and healthy returns to his investors so he resorted to lying to keep them satisfied.

Table: 1. The Bernie Madoff Timeline

| Important Dates | Events that took place |
|--------------------------------|---|
| 11 th December 2008 | Bernie Madoff surrenders himself to police custody. However, he is freed on a bond of \$10 million. State Prosecutors charge him with fraudulent behavior and international money laundering. Several other charges are levied on him and he is finally arrested on charges of financial crimes. |
| 15 th December 2008 | The state judge assigns an executrix to ascertain the net assets of Bernie Madoff to ensure that all his victims are paid through the liquidation of his assets. However, it is found that the assets were not enough as the total scam amounted to 64.8 billion dollars. |
| 23 rd December 2008 | A hedge fund manager from France named Thierry De la Villehuchet is found dead. The probable cause for his death is confirmed as suicide by the police. It is later notified to the court that his company named Access International Advisors lost \$1.4 billion from the scam conducted by Bernie Madoff. |
| 5 th January 2009 | The prosecutors appointed by the Federal court state that Bernie Madoff had distributed various pieces of jewelry and personal belongings to his relatives and friends out of the invested funds. The worth of such distribution was around 1 million US dollars. The case for money laundering against him became even stronger after this testimonial in the court. As not only national he also cheated international clients to make these gains. |
| 8 th January 2009 | The Public Prosecutors state that Bernie Madoff had cheques signed that worth 173 million US dollars when he was arrested. The prosecutors also appeal to the presiding judge to send the cold-blooded imposter to jail. However, the appeal of the prosecutors was rejected as the case required further shreds of evidence to seal the judgment. |
| 12 th March 2009 | It is on this date that Bernie Madoff pleads guilty to all eleven charges levied against him. He admits to international money laundering and also discloses that he had been running a false Ponzi scheme for the last three decades. His confessions are heard in the court and his judgment is sealed. |
| 29 th June 2009 | A historical judgment is passed in the court when Bernie Madoff is sentenced to 150 years of imprisonment. He is also made obliged to repay 170 billion US dollars as a fine and repay his victims and their families. The imposter himself admits that he has left behind a legacy of shame for himself. The crowd applauds in ecstasy as the charlatan gets the maximum sentence under American law. |
| 29 th July 2009 | Bernie speaks to a lawyer and says that he is quite astonished that he could make it this long as he thought he would get caught quite early in his career of committing fraud. He also states that whenever he met any SEC official he feared that he would get caught. |
| 11 th December 2010 | The elder son of Bernie Madoff, Mark is found dead at his residence exactly two years after his father's arrest. |
| 16 th February 2011 | Bernie Madoff hires a biographer and tells him that banks were well aware of his fraudulent scheme but they did nothing to stop him. |

Conclusion

In the end, it can be resolved that the Bernie Madoff case had shocked the entire business fraternity. The intensity of the crime and its duration was nothing less than bewildering. Time and again there have been questions that were raised that how could an individual continue to commit fraud over a period of 30 years? The reasons for the same can be plenty. Firstly, Madoff had been a Chairman of NASDAQ therefore he had enough credibility in the eyes of the investors. Secondly, he was a reputed figure in the stock markets as he also worked as an advisory agent to the SEC. Finally, he was well trained and had formidable expertise in the field of stock markets. He had also worked as a stockbroker in the earlier half of his life. However, the havoc that this imposter caused was unforeseen. The human race had never seen such a fraud of this magnitude.

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