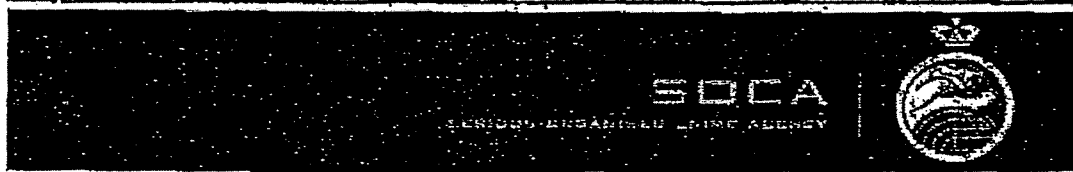


**RESTRICTED****SAR Ref: 82270**

Source Ref:	IRL-106-08	Disclosure Type:	Proceeds of Crime Act 2002
SAR Date:	29 Oct 2008	Consent Required:	N
Source:	JPMorgan Chase Bank, N.A.	Source Detail:	London branch
Related Disclosure IDs:			

**Main Subject - Suspect**

Legal Entity Name:	Bernard L Madoff Investment Securities LLC		
Legal Entity Number:		VAT Number:	
Business Type:		Registered:	UNITED STATES

**Associated Subject - Suspect**

Legal Entity Name:	Aurelia Finance SA		
Legal Entity Number:		VAT Number:	
Business Type:		Registered:	SWITZERLAND
Reason for Association:	Introducer/product distributor, with clients also invested in Madoff funds		

**Reason For Suspicion**

JPMCB has sold several hundred million dollars worth of structured investment products to clients through its SIDM unit in London. The products reference various underlying funds which are advised and ultimately controlled by Bernard L Madoff Investment Securities LLC in New York, into which funds the sale proceeds are invested, either directly or via funds of funds. The economic effect of the funds is then passed on to the holders of the structured products. The funds are Lagoon Trust Ltd, Fairfield Sentry/Sigma Ltd (BVI) and Herald Fund SPC.

As part of the distribution of product, JPMCB has sold product to a Swiss introducer/product distributor group called Aurelia Finance SA, whose ultimate clients thus hold the securitised products, the return on which is linked to the Madoff-controlled funds. We believe that Aurelia Finance approached us with the structure.

JPMCB's concerns around Madoff Securities are based (1) on the investment performance achieved by its funds which is so consistently and significantly ahead of its peers year-on-year, even in the prevailing market conditions, as to appear too good to be true - meaning that it probably is; and (2) the lack of transparency around Madoff Securities trading techniques, the implementation of its investment strategy, and the identity of its OTC option counterparties; and (3) its unwillingness to provide helpful information. As a result JPMCB has sent out redemption notices in respect of one fund, and is preparing similar notices for two more funds.

JPMCB's concerns around Aurelia focus on the distributor's awareness of the redemption action which JPMCB is undertaking on the Madoff funds, and its reaction to it. Transcriptions of the conversation between bank traders who deal with the funds and Aurelia contain references by Aurelia to Columbian interests who will not be happy with JPMCB's actions, statements that the value of the funds in question must not fall, and thinly veiled threats to the security of bank staff involved e.g. we know who you are and where you live/work. Transcriptions (conversations are in French) are held on CD format and can be made available if necessary. Aurelia Finance is a Geneva-based fund manager and is a 5-man partnership. It is a member of the Swiss Association of Fund Managers, which is designated by the Swiss authorities as a Self-Regulatory Organisation.

Background:-

Bernhard L Madoff Investment Securities LLC ("BLM") is owned and controlled by its founder, Bernie Madoff, and is an SEC-registered Investment Adviser founded in 1961. Its UK subsidiary is one of the largest market makers in listed US securities in London. His brother Peter is Senior MD and Head of Trading - both brothers have served on the NASDAQ board of directors. Bernie's two children hold senior positions in US financial regulators.

BLM acts as sub-adviser, sub-custodian and broker/dealer to the funds in question, as noted above. These funds all access the BLM split-strike trading strategy with its own order entry system and controls, none of which are properly understood in terms of their successful operation - other IAs use split-strike strategies, but nowhere near as successfully as BLM. Fund managers appear to know very little about how BLM strategy and systems work, and seem unconcerned in view of its consistent profitability. JPMCB is also concerned about the conflict of interests which the three combined roles of BLM could represent, as noted above.

Fund redemption detail is as follows - re the Fairfield funds, redemption notices for €150mm out of €200mm total investment have already gone out. Re Herald, redemption notices for the total holding of \$150mm have been submitted today. Re Lagoon, no action has been taken as yet but due to take place before the 23 Nov cut-off date.

Of further concern to JPMCB are the following:-

- (1) The BLM auditors, Frieling and Morowitz, are relatively small and unknown, and possibly more dependent than is appropriate on retention by BLM. This is more significant when we note that the funds are audited by PwC and Ernst and Young (all unqualified for 2007).
- (2) Administrator to the Fairfield funds is Citco, whilst HSBC acts for Herald in this role. Both have apparently undertaken due diligence on the funds but cannot share this with JPMCB. Citco Custody and Citco Fund Services carry out a 3-way reconciliation with Fairfield of daily positions/trades, prior to system input. This therefore covers data entry integrity only, with no reconciliation of source data to 3rd parties - i.e. underlying clients, who continue to remain unidentified.

Report Activity  
Assessment:

**RESTRICTED**