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## **Madoff Brother, at Arm's Length?**

### **Peter Was No. 2 and Close to Bernard; Investigators Now Scrutinizing Role**

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As the No. 2 executive at Bernard L. Madoff Investment Securities LLC, Peter Madoff worked side by side with his older brother Bernard for nearly 40 years.

Outside the office they skied together, including on one 2004 trip with a broker working at the firm's office who recruited investors for Bernard Madoff's advisory business. With Peter long viewed as an heir apparent, the brothers tried to avoid flying together.

Now, they are keeping their distance. Bernard Madoff has told prosecutors he acted alone in bilking investors out of \$50 billion over several decades. Peter Madoff has stopped coming into the office and isn't talking publicly about his role at the securities firm, where he headed trading operations.

In a firm defined by family ties, Bernard, 70 years old, and Peter, 63, were especially close. With an office a few feet from his brother, Peter helped create innovative electronic-trading systems on which much of Madoff Securities' success and reputation was built. For the past two decades, Peter ran the day-to-day trading operations of what the firm described as its core business.

"Peter was very savvy on the technology front," says Edward Nicoll, who was a trading client of Madoff Securities as a co-founder of Waterhouse Securities Inc. "At every stage he automated Madoff's operation and that gave them a trading advantage."

No information has surfaced to suggest that Peter knew of or participated in the alleged fraud. Though he was chief compliance officer, his operational duties as head of trading formally were separate from the investment-advisory business at the heart of the alleged Ponzi scheme. Neither Peter nor his lawyer, Rusty Wing, responded to requests for comment.

Investigators, investors and lawyers involved in the case are questioning how Bernard could have orchestrated such a massive scam over so many years on his own. They are scrutinizing whether there was a role played in the alleged scheme by others with close ties to Bernard over the years, including Peter and other family members, according to people familiar with the probe. It isn't clear if Peter has been asked to cooperate with the continuing investigation being conducted by the Securities and Exchange Commission and the Manhattan U.S. attorney's office. Investigators didn't return calls for comment.

## Breaking the News

Peter was the first employee Bernard told last month that the alleged scheme was unraveling—a day before Bernard told his sons, Mark and Andrew, according to a person familiar with accounts of the events. Peter, along with Bernard's wife, Ruth, co-signed for Bernard's \$10 million bail.

Peter's office was just off Madoff Securities' main trading floor on the 19th floor of the firm's headquarters building. The investment-advisory business at the center of the government probe was sequestered on the 17th floor in an area known as "the cage" because it had once housed securities stored by the firm.

Peter helped create the computer system through which clients could trade with the firm in the late 1970s and early '80s, at a time when most transactions were still done over the phone. The computer systems supporting the firm's trading operation were separate from those for Bernard Madoff's advisory business on the 17th floor; it isn't clear whether Peter had direct knowledge of that network.

For many years, there were individuals who marketed Bernard's advisory business housed within Peter's domain near the trading floor, according to current and former employees. These included Alvin J. "Sonny" Delaire Jr., who worked for years near the trading desk Peter supervised, but whose job was to solicit clients for Bernard Madoff's advisory business, according to a Madoff investor and documents reviewed by The Wall Street Journal.

Mr. Delaire initially was registered as an employee of Madoff Securities and later as a broker for Cohmad Securities, a small brokerage house, according to his regulatory records. Cohmad was a joint partnership between Bernard and a longtime friend, Maurice "Sonny" Cohn, according to people close to the firm.

Though technically a brokerage firm, Cohmad acted as an important recruiter of clients for Bernard's advisory business, according to clients and people familiar with the operation. While Mr. Delaire worked for Cohmad, a 1996 letter from Mr. Delaire to a prospective client reviewed by the Journal was written on Madoff stationery.

On one occasion, Peter spent time outside the office with Mr. Delaire. In 2004, Peter traveled to Switzerland for a weeklong ski trip as part of an industry gathering of Wall Street traders; Madoff Securities was a sponsor of the event.

According to a roster of the trip, Mr. Delaire was a member of a ski team of which Peter was a co-captain along with his brother. Also on the team was Mr. Delaire's wife, Peter's wife, Bernard and his wife. Mr. Delaire declined to comment. The Massachusetts Secretary of State has subpoenaed Cohmad, seeking details of its relationship with Madoff Securities.

**Peter also had a connection with an investor who lost money in the alleged Ponzi scheme. Jerome Reisman, a lawyer in Garden City, N.Y., says Peter served as co-executor to an estate of a client who had an investment account with Madoff Securities. Mr. Reisman said the client**

**died in 2005 and the estate may now have lost more than \$10 million. "We believe Peter was very much involved" with the client, Mr. Reisman said.**

Peter received a degree from New York's Fordham Law School in 1970 and was soon splitting time between work at his brother's firm and helping raise a newborn daughter with his wife, Marion, according to former classmate Donald Rasher. Mr. Rasher, who now works as a government lawyer, recalls stopping by Bernard Madoff's office on the way to New York Knicks basketball games he attended with Peter.

'Mr. Outside'

At the time, Bernard's fledgling trading firm occupied a niche outside the established players on Wall Street. Most stock trading was done through the members-only club of the New York Stock Exchange floor. Madoff Securities wasn't a member of the exchange; instead, it was a "Third Market" trading company, buying and selling stocks not listed on the NYSE.

In the late 1980s, as Bernard devoted more time to big-picture market-structure issues and traveling, Peter took over the day-to-day management of the trading desk. In the late 1990s, Bernard's sons, Mark and Andrew, took over direct responsibility for the trading operation but continued to report to Peter, who increasingly began taking on the role of "Mr. Outside," managing client relationships and handling regulatory issues.

Peter "admired his brother greatly" but is "equally as bright...and quite capable on his own," says Joseph Hardiman, former head of the Nasdaq Stock Market and friends with the Madoffs.

Though affable and down-to-earth, Peter could be a fierce adversary and defender of the firm's business interests, associates say. "There was no persuading Peter that his way wasn't the best," says Christopher Keith, who sold a technology business to Madoff in the late 1990s and disagreed with Peter about how the technology should be used to increase Madoff Securities' trading business.

Peter was a central player at the National Stock Exchange, a regional marketplace in which Madoff Securities has had a significant stake over the years. After the exchange learned it was going to lose Instinet Group Inc.'s trading business in 2005 with the Instinet unit's announced sale to Nasdaq, Peter, a director at the National exchange for more than 25 years, helped push through sweeter terms for National for the remaining months of their contract. The negotiations were "very contentious," recalls Mr. Nicoll, then Instinet CEO.

Peter was an "active participant" as director, one of 15 on the board, says Joseph Rizzello, president of the National Stock Exchange, formerly called the Cincinnati Stock Exchange. He was "vocal" in many settings, including in recent work as a board member on the brokerage industry's trade group pushing for lower market-data fees charged by exchanges, Mr. Rizzello says.

Amid the scandal, Peter is expected to leave National exchange's board in coming weeks, according to people familiar with the matter. The exchange and Madoff Securities' trustee are also expected to discuss how to handle the firm's 11% stake in the exchange.

Despite Peter's heavy workload at Madoff Securities, Bernard was the sole owner of the company, according to records the firm has provided to regulators. There was no formal succession plan at the company, but employees for years say they assumed that Peter would be in charge should something happen to Bernard.

For more than a decade, Peter has owned a home valued at about \$1.7 million in Old Westbury, on Long Island. He also has a home in Palm Beach, Fla., valued at \$4.2 million, according to public records. There, he has entertained associates, according to a person who attended parties there. A vintage-car buff, Peter recently bought an old Aston Martin.

It isn't clear whether Peter had any of his money invested with the Madoff advisory business, or how much he was paid.

Peter at times participated in typical trading-room antics, once winning a contest by eating dozens of White Castle hamburgers. Dapper, he often wore expensive suits and sometimes a bowtie, according to former employees.

#### No Blue Pens

At the office, Peter enforced Bernard's preference for black-and-gray décor. A few years back, a new trader at Madoff Securities was surprised when Peter scolded him for using a blue pen at the firm. "We don't use blue pens," a former employee recalls Peter telling the trader. Only black would do.

Like Bernard, whose sons worked at the firm, Peter's children were part of the fabric of Madoff Securities. His son Roger would occasionally accompany his dad to work while in elementary school, making the early-morning drive to work on the Long Island Expressway in a Porsche 911. Roger, who died in 2006 after a long battle with leukemia, described his father in a book "as an entrepreneur and always looking for new ideas."

Peter's daughter, who also attended Fordham Law, went on to join the family business. She worked primarily as a compliance lawyer at Madoff Securities' market-making arm at the time of her uncle's arrest.

At about 9 a.m. on Dec. 11, Peter gathered the employees of Madoff Securities to break the news that Bernard had been arrested, according to people who were in attendance. In separate meetings on the both the 18th and 19th floors of the building in New York where the firm is based, Peter then asked stunned employees to keep the news to themselves.

In the initial days after Bernard's arrest, Peter was the only senior Madoff at the firm that continued to go into the office. He spent time talking with investigators and later encouraged employees to be cooperative, according to co-workers.

Peter stopped showing up in the office sometime before Christmas, employees say.

—Dionne Searcey, Amir Efrati and Susan Pulliam contributed to this article.

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