Madoff Investment Fraud White-Collar Crime and Regulatory Failure

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Identification Of The Scandal

Madoff investment scandal illustrates the ability of business leaders to defraud their investors. The video clip demonstrates the manner in which the founder of the Wall Street firm defrauded about 12000 investors of their money. This is a crime that was hidden for a long time. Though some signs of the offense had been detected in the year 1999, it was not easy to verify if this was the truth of the matter. It was not until the fraud occurred in the year 2008 that the situation became unbearable. Madoff defrauded the current investors' revenue and awarded returns to the former investors. [1]

To prevent the crime from being detected, Madoff and the rest of the business leaders prepared fictitious financial records for many years. Therefore, it was not easy to determine the actual financial position of the Wall Street firm. The investors continued investing for a long time without noticing that something was amiss in the company of their choice. The annual reports that were given to the investors and the public were all fixed and did not reflect the actual position of the business. More and more money was invested in the securities.

The thing is that Madoff engaged in and facilitated the theft of the investors' money. In the 2008 case of fraud, Madoff investors were defrauded of an amount not less than $64.8 billion. To cover up the same, Madoff presented false information on the reports produced from time to time. The US SEC is seen to have believed more in the information provided by the Madoff firm and did not make a sufficient investigation into the matter. Madoff provided for various taxes that were made on the profits made by the firm, even though they were all fictional. Also, Madoff stated that the organization had liabilities amounting to $50 billion. However, all this was a scam that was aimed at hiding the truth that the investors' money had been stolen and awarded to some other beneficiaries.

From the video, it can be noted that close to half of all the investors did not lose their money after the scandal. This means that some investors were taking advantage of the rest of the investors. Some investors knew what was going on, while others did not. Half of the direct investors in the company never lost their money. This is a sign that Madoff was not working alone. It was all a network that induced only the beneficiaries in the plan. Most of the investors, however, lost their money in the scandal. Almost all of the investors that invested their money indirectly lost it.

It is probable to imagine that the US SEC also cultivated the role of Madoff in the Ponzi scheme. Even after some information came to them about the activities conducted by Madoff and his team, no serious action was taken. From the year 1999 to the year of financial depression, 2008, a lot happened in the organization. This was quite a long time for the SEC to go without notice. The SEC initiated some investigation into the company. However, this seemed to have been simple and not conclusive. This is because Madoff had committed fraud for a long time. The financial reports given were always falsified, and this made the company retain its share in the market. From the false information, more clients joined the trap. The time came when the company could not hold. Too much money had been taken from the pool of the investors. It was only after the company could not stand that the mess was detected. The SEC has been, therefore, blamed for not investigating the fraud deeply and with all the seriousness it depicts.

Consequences Of The Madoff Fraud On The Wall Street

Immediately after the scandal was detected, the reputation of the company fell by a big margin. The firm fell into a financial crisis, matching the situation of the country at the moment. Most of the remaining investors left the company, fearing that the worst could happen within no time. Just before its collapse, the Wall Street firm ranked 6th among all the security companies in the US. The business came to a halt. The legal processes began and affected all other activities of the company. The loss of reputation marked the fall of the firm in a great manner.

On the other hand, the Madoff scandal created a way for various positive changes in the security market as well as Wall Street. The leaders found the need to have in place stricter measures in the management of investors' money. First, the Wall Street Reform and Consumer Protection Act came into place. This was all set to provide the rules guiding the management of investors' money in the security market. It was noted that there was a lack of a law that protected the investors in case such fraud occurred without their knowledge. Therefore, it was an attempt to bring to book the offenders and perpetrators of such scams. The ability to commit such a crime was also made more difficult by the new act of Wall Street. The various penalties and disciplinary actions were also provided for in the new reforms of Wall Street. The Act also gave the SEC more power to be able to monitor closely the security organizations that posed a systemic threat. Therefore, the SEC could now have the ability to demand some form of information that could not be possible in the past. Thus, detection was made easier under the new regulations.

Wall Street also increased its levels of transparency. In this case, the investors were kept in the dark for a long time even though they had their money in various companies. Wall Street, therefore, found it necessary to ensure that they understood the view of the investors regarding their money. Wall Street introduced a more profound form of due diligence on the security companies. This was to determine the various security and technology practices put in place to protect the interests of the

investors. The investors would then be informed from time to time about their amounts and the real figures disclosed to them. As this occurs frequently, the ability of the top leadership to engage in any form of fraud is limited.

Additional reporting practices were also taken up by Wall Street. In the past, the brokers were not required to prepare quarterly reports on the way they maintained the investors' cash. However, this was not taken as a rule and a routine. The brokers were supposed to provide for the way in which they enhanced the safety of the investors' money. Reporting was, therefore, made more open and transparent. The investors could be updated on the various techniques used to maintain their money, thus assuring them of their security.

Wall Street was reformed to ensure better investigations. Therefore, the need to document the various investigations carried out on the investors' cash came up. Wall Street started carrying out routine investigations on its transactions with the investors. Besides, it also enhanced more detailed investigations of the transactions between the investors and the brokers. This was to detect in good time any form of planned fraud against the unknowing investors.

Complexities Of White-Collar Crimes

Various reasons make it hard to detect white-collar crimes. First, crime detection requires a lot of time for the crime to be fully investigated. For this reason, the investigators are required to prepare well in advance before starting the job. They also need to have a deep level of knowledge in the securities field. Most of the investigators do not have such knowledge. Therefore, they take a lot of time before getting familiar with the environment under consideration. Also, the investigation requires the disruption of the normal operations of the organization. As such, some of the organizational leaders, as well as other employees, may not readily cooperate. The investigators then require a lot more time to convince the employees and other leaders of the need to cooperate in the investigations.

Another reason for the difficulty in the investigation is that a vast amount of resources is required. In this regard, the investigator needs too much money to start working. In many cases, the level of resources required to conduct the research surpasses the value being investigated. As such, it adds no value to the organization as well as to the interest of the investors. No investigative firm would undertake work to determine the possibility of a crime that does not amount to the resources to be incurred.

Also, most white-collar crimes are conducted professionally. Therefore, they become hard to detect. For instance, the Ponzi scheme is undertaken using accounting knowledge. When some money goes missing, the accountants can also replace the loss with a fictional liability. Liabilities are normal aspects of organizations. It, therefore, turns out to be hard to detect.

Also, most white-collar crimes are conducted by the top leaders. The same leaders are entrusted with the responsibility of protecting the value of the shareholders. Dealing with the top leadership is

sometimes a challenge to the investigators. This is because they have much influence due to their capacities. In many cases, the top leaders even offer bribes to have their cases dropped. The investor remains at a loss.

Conclusion And Personal Thoughts

Such a fraud was quite a big mess for the American economy at a time when it experienced a drop. The scheme increased the effect of the financial crisis experienced in the United States. However, I feel that the fraud took too long to be detected. From the year 1999, Madoff had played his cards well to have defrauded the investors of all that money. I believe the control systems were quite weak for the Wall Street firm. The rate of ignorance by the SEC must have been quite high all along, as they let the suspicious information go to waste. It did not have to take the company that long to detect the fraud. The investors are entitled to factual information regarding their investments. However, all this was denied all along. This must have been a well-calculated move.

Madoff must have been a smart person in the field of securities. His long experience in the business must have given him the skills to conduct such a significant fraud. However, this could not have been conducted by one person. I, therefore, relate the scam to the aspect of having family members managing almost all crucial areas of the firm. Thus, the leaders easily conspired and defrauded the investors by offering false information. Some influential people must have been behind the significant loss to the investors. Madoff must have had a secure connection to the investigative arms and, therefore, could not be arrested before the entire mess occurred. I feel that investigators should be subjected to stricter codes so that they can offer their services objectively. Better and stronger internal controls in Wall Street could have saved it from all the mess.

References

[1] https://youtu.be/Ao4cIpuatj4