

Goldman Sachs Accused of Fraud by US Regulator SEC

By [Global Research](#)

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Goldman Sachs, the Wall Street powerhouse, has been accused of defrauding investors by America's financial regulator.

The Securities and Exchange Commission (SEC) alleges that Goldman failed to disclose conflicts of interest.

The claims concern Goldman's marketing of sub-prime mortgage investments just as the US housing market faltered.

Goldman rejected the SEC's allegations, saying that it would "vigorously" defend its reputation.

News that the SEC was pressing civil fraud charges against Goldman and one of its London-based vice presidents, Fabrice Tourre, sent shares in the investment bank tumbling 12%.

The SEC says Goldman failed to disclose "vital information" that one of its clients, Paulson & Co, helped choose which securities were packaged into the mortgage portfolio.

These securities were sold to investors in 2007.

But Goldman did not disclose that Paulson, one of the world's largest hedge funds, had bet that the value of the securities would fall.

The SEC said: "Unbeknownst to investors, Paulson... which was posed to benefit if the [securities] defaulted, played a significant role in selecting which [securities] should make up the portfolio."

"In sum, Goldman Sachs arranged a transaction at Paulson's request in which Paulson heavily influenced the selection of the portfolio to suit its economic interests," said the Commission.

Housing collapse

The SEC alleges that investors in the mortgage securities, packaged into a vehicle called Abacus, lost more than \$1bn (£650m) in the US housing collapse.

Mr Tourre was principally behind the creation of Abacus, which agreed its deal with Paulson in April 2007, the SEC said.

The Commission alleges that Mr Tourre knew the market in mortgage-backed securities was about to be hit well before this date.

The SEC's court document quotes an email from Mr Tourre to a friend in January 2007. "More and more leverage in the system. Only potential survivor, the fabulous Fab[rice Tourre]... standing in the middle of all these complex, highly leveraged, exotic trades he created without necessarily understanding all of the implications of those monstrosities!!!"

Goldman denied any wrongdoing, saying in a brief statement: "The SEC's charges are completely unfounded in law and fact and we will vigorously contest them and defend the firm and its reputation."

Calls to Mr Tourre's office were referred to the Goldman press office. Paulson has not been charged.

'Regulation risk'

Goldman, arguably the world's most prestigious investment bank, had escaped relatively unscathed from the global financial meltdown.

This is the first time regulators have acted against a Wall Street deal that allegedly helped investors take advantage of the US housing market collapse.

Analyst Matt McCormick of Bahl & Gaynor said that the allegation could "be a fulcrum to push for even tighter regulation".

"Goldman has a fight in front of it," he said.

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