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Aura of Invincibility Weakens

By Megan Murphy and Francesco Guerrera

For Goldman Sachs, the hits keep coming.

The civil fraud case filed against the US investment bank on Friday by the US Securities and Exchange Commission is the latest in a series of blows to an institution whose success and profitability once made it appear invincible.

Eighteen months on from the credit crunch, having been linked with a litany of crises from the near-implosion of AIG to Greece's lingering debt woes, Goldman has morphed into such a symbol of greed and excess that it was notoriously dubbed "a great vampire squid wrapped around the face of humanity" by Rolling Stone magazine.

The questions now being asked on Wall Street are whether Lloyd Blankfein, Goldman's chief executive, can survive this latest assault on the firm's integrity, and whether its clients will simply choose to walk away.

Goldman shares plunged by more than 10 per cent after the SEC accused the bank of defrauding investors by misleading them about potential conflicts of interest in subprime mortgage products sold by the bank in 2007.

Investors in the complex mortgage securities, known as synthetic collateralised debt obligations, lost more than \$1bn on the portfolio as the subprime market collapsed, the SEC alleges.

"The product was new and complex but the deception and conflicts are old and simple," said Robert Khuzami, director of the SEC's division of enforcement.

Goldman immediately dismissed the charges as "completely unfounded in law and fact" and said it would "vigorously" defend the firm's reputation.

Executives at Wall Street rivals, however, were on Friday raising questions about whether the Goldman brand is becoming too tarnished for some clients to do business with, particularly on main street America. "At what point do clients – large pension funds and the like – say, 'you know there is too much bad stuff here, I am going somewhere else'," said one senior US banker. "This could be that point."

Goldman's business has thus far proven resilient to controversies over pay and its dealings with clients such as AIG and Greece amid the fallout from the worst financial crisis since the Great Depression.

The firm, which will release its financial results for the first quarter next week, notched up a more-than-healthy \$13bn in net income in 2009, with employees taking home a whopping \$16bn in pay.

After being accused by investors and politicians of being tone-deaf to the broader economic climate – most notably after Mr Blankfein remarked to a journalist that the bank was doing “God’s work” – Goldman has also taken steps to defuse public outrage over perceived Wall Street excess.

Mr Blankfein, for example, was awarded a bonus of \$9m in 2009, tens of millions of dollars lower than in previous years and significantly less than the sums awarded to some senior executives at rival banks.

It has shaken off most of the criticism in Europe over its role in massaging Greece’s debt figures in the early part of the decade by emphasising how

commonplace the swaps deals in question were at the time.

Just two weeks ago, Goldman sought to draw a line under some of the other reputational issues that have dogged the firm by rebuffing accusations that it bet against some of its biggest clients and profited from the collapse of the US housing market in an eight-page letter to shareholders.

How damaging the latest allegations from the SEC ultimately prove will largely depend on whether other banks are targeted, or whether Goldman alone will take the brunt of the accusations, experts said last night.

Lawyers that specialise in bringing claims against Wall Street banks, however, were already circling.

“This is a major regulatory case and it is going to expose what people have said about Goldman Sachs for years, that they have conflicts of interest, and act against their own customers,” said Jacob Zamansky, a lawyer.