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Goldman spotlight on feds

SEC, Obama could take hit if Wall St. heavy wins fraud case

By Thomas Grillo

If the case against Goldman Sachs Group Inc. ever reaches a New York federal court, the Wall Street bank won't be the only one on trial.

“This is an important moment for the Securities and Exchange Commission, and a lot is riding on this case,” said Jacob Zamansky, a New York securities attorney. “They missed Madoff and went easy on Bank of America. Everyone will be watching to see if they can compete against the Wall Street dream team of lawyers that Goldman will hire.”

President Obama could also take a hit from the political fallout of the case. The president is scheduled tomorrow to take his pitch for financial reform to Wall Street, the den of the “fat cat bankers” he publicly demonizes. But Obama has declined to return donations from Goldman Sachs employees and their families, which totaled \$994,795 in 2007 and 2008. Over that period, Obama also received \$701,290 from Citigroup Inc. and \$695,132 from JPMorgan Chase & Co. - making the Wall Street firms three of his seven largest donors.

Last week, the SEC charged that Goldman Sachs failed to tell two clients that the investments they bought were crafted by hedge fund manager John Paulson, who bet on them to fail. In a letter to clients, Goldman denied it misled investors.

Secretary of the Commonwealth William Galvin, who is the Bay State's top securities regulator, said the SEC had been in neutral until Mary Schapiro was sworn in as chairwoman 15 months ago. “There's been a shift at the federal regulatory authority as a result of the financial meltdown in 2008,” Galvin said. “In the past, the states have led the way, but it's clear the national regulators recognize they left a significant gap and are taking action to pick up the slack.”

Galvin said he is confident that the case against Goldman is solid. “The complaint has some very damaging allegations in it, and I have to believe the SEC would not bring a case unless they felt they had convincing evidence,” he said. “The fundamentals are conflict of interest and failure to disclose.”

Zamansky, the securities attorney, said the SEC's case against Goldman is just the tip of the iceberg. "The SEC is not only looking at Goldman, but at the other banks that are part of the syndicate on those types of deals like UBS, Bank of America and JPMorgan," he said. "It signals a new wave of litigation against Wall Street firms."

The Goldman scandal comes as the company released better-than-expected results yesterday with first-quarter earnings nearly doubling to \$3.3 billion. Still, Goldman shares fell 1.6 percent with earnings losing ground to the fraud suit, analysts said.