

THE SYDNEY MORNING HERALD

April 22, 2010

The Story's Headline

By Simon Mann

The imbroglio that has drawn investment powerhouse Goldman Sachs into a billion-dollar legal battle is underpinning a renewed push by the Obama administration for tighter regulation of Wall Street.

With Congress this week due to debate new laws for reining in financial markets, at least two Democrat representatives yesterday called for investigators to scrutinise the alleged Goldman Sachs scam for any taxpayer losses.

The push came after Britain and Germany indicated that they would launch their own probes into the investment company because of losses sustained in those countries by banks caught up in the scheme.

The charges filed against Goldman Sachs by the Securities and Exchange Commission re-ignited a feud in Washington, where Democrats and Republicans have failed to agree on regulatory changes drafted in response to the global financial crisis.

The issue has become supercharged in the US, where some of the Wall Street businesses that benefited from the federal government's emergency bailout are

returning to profitability and rewarding executives with multimillion-dollar bonuses.

President Barack Obama and fellow Democrats, emboldened by their recent triumph on healthcare reform, are pushing for a clampdown on market rules and in particular on those governing derivatives, the complex financial instruments that helped bring the banking system to near-collapse in 2008 and which included products such as the CDO (collateralised debt obligation) that was marketed by Goldman Sachs.

Talks broke down last week when Republicans bridled at some of the administration's proposals. But in his regular weekend radio address, Mr Obama drew on rhetoric not dissimilar to his pledge on healthcare.

"One way or another, we will move forward. This issue is too important. The costs of inaction are too great," he said. "We will hold Wall Street accountable. We will protect and empower consumers in our financial system. That's what reform is all about."

Republicans have characterised the bill as locking the country into future

taxpayer bailouts of financial institutions deemed too big to fail.

But Mr Obama has countered, saying the changes would do the exact opposite, preventing companies from veering into reckless financial engineering using instruments that gambled with investor funds.

Some observers expect a broader investigation of Wall Street companies by a regulator still smarting over its inability to nab Ponzi schemer Bernie Madoff before the \$US65 billion collapse **of his investment firm.**

"The SEC is on the hot seat," lawyer Jacob Zamansky said.

"They missed Madoff ... It's a big moment for the SEC to see if they can stand up to Goldman Sachs and the best lawyers and experts on Wall Street."

Treasury Secretary Timothy Geithner declined to comment on the investigation details or its merits.

But speaking on NBC's *Meet the Press*, he said he was confident of securing tough reforms "that will bring derivative markets out of the dark, help protect the taxpayers from having to fund future bailouts and try to make sure we're getting Americans some basic protection against fraud and abuse".