Goldman Sachs Reeling from Employee Charges, CFTC Fine

Goldman Sachs Corporation is facing a new wave of charges of not looking out for the interests of its clients this week, as one corporate vice president published a resignation March 14 letter in the New York Times and the company agreed March 13 to pay a $7 million fine to the Commodity Futures Trading Commission. Goldman Sachs stock took a hit on the two-pronged attack March 14, losing $2.2 billion in stock value with a three-percent plunge, though the stock recovered significantly the next day.

Goldman Sachs is Wall Street's investment banking giant, with 33,000 employees, $28.8 billion in annual revenue and $4.4 billion in profit in 2011.

Former Goldman Sachs Vice President Greg Smith wrote in the March 14 *New York Times* that "I can honestly say that the environment now is as toxic and destructive as I have ever seen it." Smith complained that the client's interests had been "sidelined" to the corporate interests and that "When the history books are written about Goldman Sachs, they may reflect that the current chief executive officer, Lloyd C. Blankfein, and the president, Gary D. Cohn, lost hold of the firm's culture on their watch. I truly believe that this decline in the firm's moral fiber represents the single most serious threat to its long-run survival." Smith resigned as executive director of the firm's United States equity derivatives business in Europe, the Middle East and Africa, a middle level position with the firm. "Call me old-fashioned, but I don't like selling my clients a product that is wrong for them," Smith charged of the Goldman Sachs corporate culture.

Specifically, Smith charged that "I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It's purely about how we can make the most possible money off of them. If you were an alien from Mars and sat in on one of these meetings, you would believe that a client's success or progress was not part of the thought process at all. It makes me ill how callously people talk about ripping their clients off."

Goldman Sachs CEO Lloyd C. Blankfein and President/COO Gary D. Cohn jointly sent a letter to employees March 14 countering that "assertions made by this individual that do not reflect our values, our culture and how the vast majority of people at Goldman Sachs think about the firm and the work it does on behalf of our clients." Blankfein and Cohn claimed that Smith was only one of 12,000 Goldman Sachs vice presidents and that Smith did not represent the corporate mainstream.

But a number of Goldman Sachs outsiders intimately familiar with the company concurred with Smith's assessments. Former Goldman Sachs employee and CNBC talk show host Jim Kramer told NBC that it is "a shame, and this is a shocking piece. Everyone has to read it." Former American International Group Chairman Maurice Greenberg charged there has been a "change in culture" in a Bloomberg.com interview on Goldman Sachs. Greenberg had never worked for Goldman Sachs, but had used Goldman Sachs as his investment banker when he headed American International Group until he was forced into retirement in 2005 (and is facing civil lawsuits from New York state bureaucrats for fraud). American International Group – essentially a bankers' insurance company – faced bankruptcy in 2008 but received $182.5 billion in taxpayer bailouts through the TARP program, the largest of any private company in the program. Tens of billions from the AIG bailout funds went to Goldman Sachs in what was essentially a back-door taxpayer bailout of Goldman Sachs through the medium of AIG.

Goldman Sachs has also agreed to massive fines that relate to deceptive practices related to deceiving clients on their investments. The *Wall Street Journal* reported March 13 that "Goldman Sachs's clearing arm, meanwhile, agreed to pay a $7 million fine to the CFTC for failing to diligently supervise accounts that it carried for a brokerage client." The recent Commodity Futures Trading Commission fine was not the only recent fine the company has had to pay, nor even the largest. Goldman Sachs agreed to a $550 million fraud settlement with the Securities and Exchange Commission back in 2010, the largest in Wall Street history. The settlement surrounded a Goldman-created mortgage-backed security called Abacus-2007-AC1, which was sold to clients even as the company had bet that the stock would lose money. The *New York Times* reported back in 2010 of the fine that "it would represent only a small financial dent for Goldman, which reported $13.39 billion in profit last year."

The Abacus deal was not the only mortgage-backed security (often called Collateralized Debt Obligations, or CDO) Goldman sold against the interests of its clients as the housing bubble faced collapse. Tom Montag, the head of the division that dealt with a mortgage-backed security called Timberwolf, told fellow Goldman Sachs trader Daniel Sparks, "That Timberwolf was one sh***y deal" in a corporate email. Goldman Sachs continued to market Timberwolf mortgage-backed securities even after Montag's email. The firm still faces a $1.08 billion lawsuit over the Timberwolf deal and is in arbitration with a South Korean insurer which bought Timberland CDOs and lost money.

Goldman Sachs has claimed that its corporate focus of looking out for clients has changed since the mortgage crisis, but a Bloomberg.com column by William D. Cohan seems to belie that wishful image. Cohan described Goldman Sachs' role in the El Paso Corp./Kinder Morgan 2011 merger: "A blistering opinion handed down Feb. 29 by a Delaware judge makes a convincing case that Goldman Sachs's heads-I-win, tails-you-lose approach to business hasn't changed at all. And it goes a long way toward explaining why, almost four years after the financial crisis, the system is still rigged." Goldman had influence on both companies' boards, and rigged the system so that they got paid whether the merger took place or not and whether El Paso was able to spin off its oil and gas exploration unit as part of the merger. Cohan explained that " if El Paso agreed to merge with Kinder Morgan… Goldman would receive $20 million…. If the spinoff alone occurred, only Goldman Sachs would get paid ($25 million). Heads-I-win, tails-you-lose."