



U.S. Securities and Exchange Commission

Goldman Sachs to Pay Record \$550 Million to Settle SEC Charges Related to Subprime Mortgage CDO

Firm Acknowledges CDO Marketing Materials Were Incomplete and Should Have Revealed Paulson's Role

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Washington, D.C., July 15, 2010 — The Securities and Exchange Commission today announced that Goldman, Sachs & Co. will pay \$550 million and reform its business practices to settle SEC charges that Goldman misled investors in a subprime mortgage product just as the U.S. housing market was starting to collapse.

In agreeing to the SEC's largest-ever penalty paid by a Wall Street firm, Goldman also acknowledged that its marketing materials for the subprime product contained incomplete information.

Additional Materials

- ▶ [Goldman Consent](#)
 - ▶ [Proposed Judgment](#)
 - ▶ [Litigation Release No. 21592](#)
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In its [April 16 complaint](#), the SEC alleged that Goldman misstated and omitted key facts regarding a synthetic collateralized debt obligation (CDO) it marketed that hinged on the performance of subprime residential mortgage-backed securities. Goldman failed to disclose to investors vital information about the CDO, known as ABACUS 2007-AC1, particularly the role that hedge fund Paulson & Co. Inc. played in the portfolio selection process and the fact that Paulson had taken a short position against the CDO.

In settlement papers submitted to the U.S. District Court for the Southern District of New York, Goldman made the following acknowledgement:

Goldman acknowledges that the marketing materials for the ABACUS 2007-AC1 transaction contained incomplete

[High-Res Photo](#)



"This settlement is a stark lesson to Wall Street firms that no product is too complex, and no investor too sophisticated, to avoid a heavy price if a firm violates the fundamental principles of honest treatment and fair dealing."

Robert Khuzami
Director
SEC Enforcement

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information. In particular, it was a mistake for the Goldman marketing materials to state that the reference portfolio was "selected by" ACA Management LLC without disclosing the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson's economic interests were adverse to CDO investors. Goldman regrets that the marketing materials did not contain that disclosure.

"Half a billion dollars is the largest penalty ever assessed against a financial services firm in the history of the SEC," said Robert Khuzami, Director of the SEC's Division of Enforcement. "This settlement is a stark lesson to Wall Street firms that no product is too complex, and no investor too sophisticated, to avoid a heavy price if a firm violates the fundamental principles of honest treatment and fair dealing."

Lorin L. Reisner, Deputy Director of the SEC's Division of Enforcement, added, "The unmistakable message of this lawsuit and today's settlement is that half-truths and deception cannot be tolerated and that the integrity of the securities markets depends on all market participants acting with uncompromising adherence to the requirements of truthfulness and honesty."

Goldman agreed to settle the SEC's charges without admitting or denying the allegations by consenting to the entry of a final judgment that provides for a permanent injunction from violations of the antifraud provisions of the Securities Act of 1933. Of the \$550 million to be paid by Goldman in the settlement, \$250 million would be returned to harmed investors through a Fair Fund distribution and \$300 million would be paid to the U.S. Treasury.

The landmark settlement also requires remedial action by Goldman in its review and approval of offerings of certain mortgage securities. This includes the role and responsibilities of internal legal counsel, compliance personnel, and outside counsel in the review of written marketing materials for such offerings. The settlement also requires additional education and training of Goldman employees in this area of the firm's business. In the settlement, Goldman acknowledged that it is presently conducting a comprehensive, firm-wide review of its business standards, which the SEC has taken into account in connection with the settlement of this matter.

The settlement is subject to approval by the Honorable Barbara S. Jones, United States District Judge for the Southern District of New York.

Today's settlement, if approved by Judge Jones, resolves the SEC's enforcement action against Goldman related to the ABACUS 2007-AC1 CDO. It does not settle any other past, current or future SEC investigations against the firm. Meanwhile, the SEC's litigation continues against Fabrice Tourre, a vice president at Goldman.

The SEC investigation that led to the filing and settlement of this enforcement action was conducted by the Enforcement Division's Structured and New Products Unit, led by Kenneth Lench and Reid Muoio, and including Jason Anthony, N. Creola Kelly, Melissa Lamb, and Jeffrey Leasure. Additionally, together with Deputy Director Reisner, Richard Simpson, David Gottesman, and Jeffrey Tao have been handling the litigation.

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