THE WALL STREET JOURNAL.
WSJ.com

BUSINESS | APRIL 16, 2010, 11:11 A.M. ET

SEC Charges Goldman With Fraud

By FAWN JOHNSON

WASHINGTON—The Securities and Exchange Commission charged Goldman Sachs Group Inc. and one of its vice presidents for defrauding investors by misstating and omitting key facts about a financial product tied to subprime mortgages.

The SEC said Goldman Sachs structured and marketed a synthetic collateralized-debt obligation, or CDO, that hinged on the performance of subprime residential mortgage-backed securities.

According to the SEC, Goldman Sachs failed to disclose to investors vital information about the CDO, in particular the role that a major hedge fund played in the portfolio selection process and the fact that the hedge fund had taken a short position against the CDO.

"The product was new and complex but the deception and conflicts are old and simple," said Robert Khuzami, Director of the Division of Enforcement.

"Goldman wrongly permitted a client that was betting against the mortgage market to heavily influence which mortgage securities to include in an investment portfolio, while telling other investors that the securities were selected by an independent, objective third party," Mr. Khuzami said.

The SEC alleged that hedge fund Paulson & Co. paid Goldman to structure a transaction in which Paulson could take short positions against mortgage securities chosen by Paulson. The SEC alleges alleges Goldman told investors an independent, third party selected the portfolio.

The Goldman complaint is part of the SEC's investigation into investment banks and others that securitize complex financial products tied to the U.S. housing market as it was beginning to show signs of distress, according to Kenneth Lench, Chief of the SEC's Structured and New Products Unit.