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Goldman Fighting Bayou \$20M+ Arbitration Award

by [Paula Schaap](#), Senior Reporter, October 22, 2010

Goldman Sachs is fighting a record-breaking \$20.6 million arbitration award given to unsecured creditors of Samuel Israel III's hedge fund fraud Bayou Group.

The bank is seeking to have the award overturned in Manhattan federal court, according to court documents.

Israel's scheme collapsed in 2005 and investors lost about \$300 million.

Israel is now serving a 20-year sentence with an additional two years tacked on because he faked his suicide and hid for a month before he was first due to report to prison.

The creditors contended that Goldman, which was Bayou's prime brokerage firm, could see that Bayou's claimed returns were not in sync with its losses.

Goldman has always contended that there was no way it could have known about the fraud.

Goldman has always contended its role as a clearing firm meant it was not expected to monitor whether transactions were suitable or to investigate their account holders.

But the FINRA arbitration panel sided with Bayou's creditors and handed down the \$20.6 million, the largest ever awarded against Goldman, according to attorney Ross Intelisano, who represents the creditors.

It will be very difficult to overturn the award as the party contesting an arbitrator's decision has to show it was issued in manifest disregard of the law.

Goldman said, in an e-mailed statement, that it intended to do just that.

"It's unfortunate that after spending all that time and money the creditors can't simply get their money," Intelisano said. "[The award of] \$20.6 million would be an 8% or 9% return before legal fees, so it's a significant recovery for the creditors."

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