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Judge Upholds Award Against Goldman

A federal judge has denied a request by Goldman Sachs to throw out a record arbitration award levied against the Wall Street firm earlier this year.

Goldman was ordered in June to pay \$20.6 million to the unsecured creditors of the Bayou Group, a hedge fund manager, who accused Goldman of ignoring signs of fraud at the firm.

Bayou collapsed in 2005, and the firm's former chief executive, Samuel Israel III, is serving 20 years for fraud. He pleaded guilty to misrepresenting the value of Bayou's funds and defrauding clients of more than \$400 million.

Goldman cleared trades for Bayou, which was based in Connecticut, before it collapsed. In 2008, Bayou's unsecured creditors' committee filed an arbitration claim against Goldman.

Judge Jed S. Rakoff of United States District Court in Lower Manhattan issued an order on Monday, saying a petition by Goldman to vacate the award had been denied.

"After full consideration of the parties' briefs and oral argument, the court hereby denies the petition to vacate the arbitration award and grants the cross-petition to confirm the award," he wrote. "However final judgment will not be entered in this case until the court issues an opinion setting forth the reasons for this ruling."

In July, Goldman moved to vacate the award. During the arbitration, Goldman denied accusations that it had ignored signs of wrongdoing, and it still has more avenues to appeal the award.

A Goldman spokesman declined to comment on Judge Rakoff's order.

The award was a watershed. If ultimately upheld, it could have ramifications throughout the financial sector. Wall Street firms, which handle billions of dollars in trades, say that their job is to clear the trade, not police the clients. This award could raise the standard for clearing.

"We are looking forward to investors finally getting some of their money back from this tragic fraud," said Ross Intelisano, a partner at the New York law firm Rich & Intelisano

who represented the Bayou creditors.

– *Susanne Craig*