
Goldman loses bid to toss record Bayou award

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By Jonathan Stempel

NEW YORK (Reuters) - A federal judge on Monday rejected Goldman Sachs Group Inc's bid to throw out a record \$20.6 million (12.8 million pounds) arbitration award involving the now-defunct Bayou hedge fund.

U.S. District Judge Jed Rakoff in Manhattan granted a request by unsecured creditors of Bayou Group LLC to confirm the award, which was made in June by an arbitration panel of the Financial Industry Regulatory Authority.

Creditors had accused a Goldman (GS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) unit that cleared trades for Bayou of ignoring signs of fraud at the Connecticut hedge fund.

Bayou was run by Samuel Israel, who is serving a 20-year prison sentence after pleading guilty in 2005 to defrauding investors out of roughly \$450 million.

"It's significant," said Ross Intelisano, a partner at Rich & Intelisano LLP, representing the creditors. "It confirms the largest arbitration award ever rendered against Goldman, and provides a significant recovery for investors."

Goldman spokesman Ed Canaday declined to comment. It was not immediately clear whether Goldman plans an appeal.

Rakoff said he will issue an opinion to explain his reasons for upholding the award.

If the award stands, it could increase the requirements that Wall Street banks set before clearing trades for clients.

In court papers, Goldman called the legal foundation for the arbitration award "demonstrably wrong."

Goldman said the law is "crystal clear" that it cannot be liable for money that Bayou deposited into and shuffled among accounts at the bank.

The case is Goldman Sachs Execution & Clearing LP v. Official Unsecured Creditors' Committee of Bayou Group LLC, U.S. District Court, Southern District of New York, No. 10-05622.

(Reporting by Jonathan Stempel. Editing by Robert MacMillan)

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