

Goldman Sachs US settlement over Malaysia 1MDB scandal to lift dark cloud

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Goldman Sachs Group Inc this week will agree to pay more than US\$2 billion to settle the US charges over its role in Malaysia's 1MDB corruption scandal, lifting a dark cloud that has hung over the bank for years.

Under the agreement with the US Department of Justice and other regulators, the bank will admit fault for its role in underwriting bond offerings that raised US\$6.5 billion for the Malaysian state fund, according to media reports on Tuesday.

One of its Asia subsidiaries is expected to plead guilty for its role in the scandal, but the bank group overall will avoid a guilty plea, which could have crippled its business, the reports said.

The long-awaited deal would allow Goldman to move beyond a saga that has threatened to derail Chief Executive Officer David Solomon's efforts to turn

around the Wall Street investment bank after a decade of under-performance.

"Getting this overhang off the back of management and the company, in general, is a very big win," said Marty Mosby, an analyst at boutique brokerage Vining Sparks.

Some investors and analysts viewed the 1MDB probes as an obstacle to Goldman doing deals to accelerate Solomon's plan to reshape it as a more conventional bank and reduce its reliance on volatile trading and investment banking revenues.

US regulators will often not allow a bank to do deals while it is the subject of investigations into past misconduct. With clarity over how much the bank needs to pay and a clean slate with regulators, Goldman may be able to be more aggressive on that front, said Mosby.

"When they had this over their heads, they didn't have that opportunity, they had to take a pause. This is a green light to say they can go ahead and do that."

The settlement may also boost the bank's share price, which has been under pressure due to the probe, said Mosby. Goldman's share price lags its rivals, trading at just 0.8 times the value of its assets.

In a sign this week's settlement could see the bank tie-up other loose ends related to the scandal, Abu Dhabi's International Petroleum Investment Co said on Wednesday it was dropping a lawsuit against Goldman to recover losses it suffered as a result of the bank's 1MDB dealings.

A spokesperson for Goldman Sachs declined to comment. A Justice Department spokesperson did not immediately respond to requests for comment.

The Justice Department probe focused on Goldman's role in underwriting three bond offerings in 2012 and 2013 that raised US\$6.5 billion for 1MDB, which was set up by the government of former prime minister Najib Abdul Razak in 2009.

The agency estimated that US\$4.5 billion of the fund's money was looted by high-level fund officials and their associates between 2009 and 2014.

Goldman, which in July paid US\$3.9 billion to settle the Malaysian government's charges against the bank, has said in the past that it was misled by bankers who worked on the bond sales.

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