

Goldman to claw back executive pay over role in 1MDB corruption

Malaysiakini

23 October 2020

Reuters

Goldman Sachs Group Inc said on Thursday it was clawing back US\$174 million (RM721 million) in executive compensation, in addition to agreeing to pay US\$2.9 billion for its role in Malaysia's 1MDB corruption scandal, lifting a cloud that has hung over the bank for years.

Reuters reported that the settlement with the US Department of Justice and other US and overseas regulators resolves a probe into the role Goldman Sachs bankers played in helping to steal cash, which Goldman helped raise, from the Malaysian sovereign wealth fund.

"While many good people worked on these transactions and tried to do the right thing, we recognise that we did not adequately address red flags and scrutinise the representations of certain members of the deal team," chief executive David Solomon wrote in a memo to staff on Thursday, adding the bank had already made several compliance improvements.

He said that the bank would be clawing back compensation from the three bankers involved, and its former executive team "in acknowledgement of the firm's institutional failures."

He and other senior executives would also have their compensation for 2020 reduced, bringing the total of clawbacks and pay reductions to US\$174 million.

According to The Australian, the bank is reducing Solomon's pay and that of Goldman president John Waldron, finance chief Stephen Scherr and Richard Gnodde, head of Goldman's international division by a combined US\$31 million.

"It is also recouping bonuses paid to ex-chief executive officer Lloyd Blankfein, former chief financial officer David Viniar and a pair of executives, Michael Sherwood and Michael Evans, who oversaw some of the 1MDB dealings and have since retired. It is also in discussions to recoup money from Gary Cohn, a former executive whose future bonuses were paid out when he joined the Trump administration in 2017, a person familiar with the matter said."

While the scandal has proved a humbling and costly saga for the Wall Street giant, the long-awaited settlement should allow Solomon to accelerate his plans to turn the bank around after a decade of underperformance, analysts said. Goldman's shares were up 1.4 percent on the news.

“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.

Under terms of the deal, Goldman agreed to pay a US\$2.3 billion (RM9.53 billion) fine for breaking anti-bribery laws and to disgorge US\$600 million (RM2.47 billion) in ill-obtained gains as part of a deferred prosecution agreement, which also requires it to improve its compliance controls.

The bank also agreed for its Malaysian subsidiary to plead guilty in a US federal court on Thursday, in a victory for prosecutors who rarely extract criminal guilty pleas from corporate entities.

Brian Rabbitt, acting head of the Justice Department's Criminal Division, said the penalty was the largest ever levied for a breach of the Foreign Corrupt Practices Act and that the settlement reflected the "seriousness" of the bank's role "in a massive global scheme to loot billions of dollars" from 1MDB.

The scandal dates to the government of former prime minister Najib Abdul Razak, which set up the 1MDB fund in 2009.

Between 2009 and 2014, Goldman bankers paid more than US\$1.6 billion in

bribes to foreign officials in Malaysia and Abu Dhabi to win 1MDB business, including underwriting US\$6.5 billion in bond sales, for which it earned US\$600 million in fees.

But billions of the fund's money were later stolen by high-level fund officials and their associates to pay for real estate, art and other luxury items, with the help of the Goldman bankers, the Justice Department said.

In 2018, the Justice Department filed criminal charges against two of the former Goldman bankers, Tim Leissner and Roger Ng. Leissner pleaded guilty to the charges last year, while Ng's case is pending in a New York court.

Thursday's deal follows US\$3.9 billion (RM16.16 billion) the bank paid in Malaysia in July to settle charges there related to the matter.

Reserves, deals

Since 2019, Goldman had set aside US\$4.39 billion to cover legal and regulatory matters. Some US\$2 billion was for matters it already resolved with the Malaysian government. On Thursday, it said it would increase its provisions for litigation and regulatory proceedings for the third quarter by US\$250 million.

Odeon Capital analyst Dick Bove scolded Goldman's management teams for allowing the 1MDB bond deals and commended the board for the clawbacks. He said he expects the financial penalties to affect fourth-quarter results despite Goldman's existing reserves.

"Every person that participated in the decisions to proceed with these offerings needs their bonuses recaptured by the company. It is very positive to hear that Goldman may actually do this," Bove added.

Despite the costs, analysts anticipated that Thursday's deal should allow Solomon to accelerate his plan to reshape Goldman as a more conventional bank and be less reliant on volatile trading venues.

Some investors and analysts viewed the 1MDB probes as an obstacle to Goldman doing transformative deals, since US regulators will often bar banks from making big acquisitions while they're being probed for serious misconduct.

With clarity over how much the bank needs to pay and achieve a clean slate from regulators, Goldman may be able to be more aggressive on that front, analyst Mosby said.

"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.”

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