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Court Upholds Big Award Against Goldman

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Goldman Sachs has been dealt another setback in its effort to overturn \$20.5 million arbitration award stemming from the 2005 collapse of the hedge fund manager Bayou Group.

On Tuesday, a panel of the United States Court of Appeals for the Second Circuit upheld the award to the creditors of Bayou, who had accused Goldman of helping the fund perpetrate a Ponzi scheme.

Goldman cleared trades for Bayou, and the unsecured creditors' committee filed its arbitration claim against Goldman in 2008.

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

The arbitration award is significant because, if upheld, it may have broader ramifications on Wall Street. Firms like Goldman clear billions of dollars in trades a year and have long held that their job is simply to clear those transactions, not police the clients. Some experts have argued that the award could force a higher duty on Wall Street.

Goldman has had its work cut out for it since the initial award was handed down in 2010. Arbitration awards are rarely overturned by courts and can be vacated only on a handful of grounds: for bias, fraud or if courts find there was "manifest disregard" of the law in the arbitration process. In this case, Goldman has argued that arbitrators showed a manifest disregard for the law.

"We have considered all of the parties' remaining attacks on the district court judgment and find them to be without merit," wrote the three judges who heard the case.

"Accordingly, we affirm the judgement of the district court."

The second circuit judges were asked to rule on the award, the largest arbitration award ever levied against Goldman, after Judge Jed S. Rakoff of Federal District Court in Manhattan denied Goldman's request to throw out the award.

Goldman declined to comment on the decision.

Lawyers for the Bayou creditors' committee were happy with the decision issued.

Tuesday. "The Bayou victims are gratified that they are finally close to recouping a substantial part of their losses due to this major victory," said John G. Rich, of Rich, Intelisano & Katz.