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Goldman Loses Appeal of Bayou Creditors' Arbitration Win

By Edward Pettersson - Jul 3, 2012

Goldman Sachs Group Inc. (GS) lost its appeal of a \$20.5 million arbitration award to creditors of Bayou Group LLC whose hedge funds -- for which Goldman served as broker -- turned out to be Ponzi schemes.

The U.S. Court of Appeals in Manhattan today affirmed a lower court's decision not to vacate the 2010 award by the Financial Industry Regulatory Authority in favor of Bayou Group's unsecured creditors.

The creditors sued Goldman Sachs Execution & Clearing LP in 2008 for its role as the prime broker and clearing broker for Bayou's hedge funds. They said the Goldman Sachs unit aided a \$400 million fraud at Stamford, Connecticut-based Bayou, which filed for bankruptcy in May 2006. Bayou co-founder Samuel Israel pleaded guilty to directing the scheme and is serving a 22-year prison term.

In a November 2010 ruling, U.S. District Judge Jed Rakoff in Manhattan said New York-based Goldman Sachs failed to show that the arbitration panel had "manifestly disregarded the law" in granting the award.

Michael DuVally, a spokesman for Goldman Sachs, declined to comment on the ruling.

The case is Goldman Sachs Execution & Clearing v. the Official Unsecured Creditors' Committee of Bayou Group, 11-2446, U.S. Court of Appeals, Second Circuit (Manhattan.)

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