

Goldman denies bringing down Bear Stearns funds

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GOLDMAN Sachs has told a US panel examining the financial crisis that the company was not responsible for toppling two Bear Stearns hedge funds in early 2007.

In dozens of pages of documents submitted to the Financial Crisis Inquiry Commission, Goldman detailed its valuation of mortgage securities underwritten by the New York company, some of which were held in two Bear hedge funds managed by Ralph Cioffi and Matthew Tannin.

The collapse of the two Bear hedge funds, which invested primarily in subprime mortgage securities and derivatives, was an early victim of the crisis and a harbinger of the pummeling suffered by financial institutions and investors during the next 18 months.

The Bear hedge funds were fatally wounded by a precipitous decline in the value of mortgage securities. The funds valued their assets partly on valuations of mortgage-related securities ob-

tained from trading partners such as Goldman. Some critics have suggested that Goldman helped push the hedge funds over the edge.

"It would be premature to make any determinations about what happened here," an FCIC spokesman said, adding that the questions responded to by Goldman "were derived from talking to a number of people, looking at documents after hearings that focused on Bear Stearns".

The documents turned over to the 10-member panel by Goldman and posted on the Wall Street giant's website show that its valuations of mortgage securities in April 2007 and May 2007 were nearly unchanged from the figures it provided to the two Bear hedge funds in March 2007.

Goldman also submitted emails sent from Goldman employees to managers at the Bear hedge funds. They show that writedowns by Goldman on the value of mortgage securities underwritten by Goldman and owned by Bear weren't large enough to cause the overall decline in net asset value that sank the hedge funds.

Goldman added that the steepest markdowns of Bear's holdings were triggered by other securities firms.

Those firms sharply reduced their valuations of certain mortgage securities traded with the Bear hedge funds, called High-Grade Structured Credit Strategies Fund and Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund. The funds were part of Bear's Bear Stearns Asset Management unit. Mr Cioffi and Mr Tannin were acquitted in November last year of criminal fraud charges related to the collapse. They are fighting a civil lawsuit filed by the Securities and Exchange Commission.

"We believe that, with the benefit of having these facts presented in one place, the FCIC will conclude that Goldman Sachs' April 2007 month-end marks could not have caused the revision of the fund's NAV or the ultimate failure of the BSAM funds," Janet Broeckel, a Goldman associate general counsel, wrote in a letter to the FCIC last month.

The FCIC has said it will release its findings next month.