



# Fed Wonders How Elon Musks Goldman Sachs Evaded Its Own Compliance Controls To Win So Many Crooked Deals

 [Profile picture for user Tyler Durden](#)

by [Tyler Durden](#)

As [we have repeatedly documented](#) in these pages, Goldman Sachs's relationship with the Federal Reserve isn't limited to one between a regulator and regulatee. In fact, for decades, Goldman Sachs, more than any other bank, enjoyed an influence over the Federal Reserve - and particularly the New York Fed, the "first among equals" of the Federal Reserve system - that flips the conventional wisdom on its head: *To put it succinctly, it was Goldman that dictates the rules to the Fed, not the other way around.*

 [Goldman](#)

Any doubters can familiarize themselves [with the story of Carmen Segarra](#), who - at personal risk to any future career in banking or government - came forward several years ago with a cache of secret recordings that revealed the pervasiveness of "regulatory capture" at the New York Fed, **which included evidence that her superiors repeatedly brushing aside her insistence that Goldman's regulatory rating be downgraded because of the "conflict-ridden" nature of some of its deals**

*(note: Segarra was making her recordings exposing the central bank's unwillingness to challenge Goldman around the same time that the storied "Vampire Squid" was underwriting the \$6 billion in 1MDB bonds, despite evidence that the bank ignored its own compliance department's warnings about the deal). And let's not forget the incident that unfolded five years ago where a junior Goldman banker received insider information directly from a "source" inside the NY Fed - offering unmitigated evidence of collusion between the two organizations. That banker, though fired from Goldman, [was later let off with a slap on the wrist.](#)*

This renders last week's "leak" that the Fed had asked Goldman to tighten oversight of its investment committees to better protect against conflict of interest as self-serving. That's because [the NY Fed](#) knows that, so long as the DOJ's spotlight lingers on Goldman's malpractice, it's only a matter of time before the regulator itself comes under scrutiny.

But the Fed's tacit campaign to show the public ([and, more importantly, certain Fed skeptics in Washington](#)) that it is "doing something" to change this toxic culture of complicity before Goldman helps another gang of plutocrats siphon off billions of dollars in public money continued on Thursday, when [Bloomberg](#) published a "leaked" report alleging that **the Fed is ramping up its investigation into how Goldman managed to evade both its internal compliance controls, as well as the Fed's controls, while pursuing the 1MDB deal (though we imagine [the endorsement by Goldman's then-CEO](#) had something to do with it).**

The Federal Reserve is ramping up its investigation into how Goldman Sachs Group Inc. executives dodged the bank's

internal controls while helping Malaysian authorities raise billions of dollars that later went missing, according to people briefed on the matter.

**The probe examines the actions of the New York-based investment bank as well as individuals and has been gaining momentum in recent weeks, the people said, asking not to be identified because the inquiry is confidential.** The Fed doesn't have the powers of a criminal prosecutor, but it can and often does sanction people involved in banking scandals.

The Fed has previously interviewed current and former employees at the firm, prying into how easy it is to short-circuit compliance systems, the people said. In recent weeks, representatives from Goldman Sachs met with the Fed and defended the bank's controls, according to a person with knowledge of the matter.

As Goldman Sachs's main regulator, the Fed has broad authority to penalize the bank or impose other changes. Earlier this year, it capped Wells Fargo & Co.'s size until the lender shores up internal controls.

"It is the Federal Reserve's policy not to confirm or deny the existence of investigations," the central bank said in an emailed statement. **"We refer criminal violations to the Department of Justice as necessary and exercise our enforcement and safety and soundness authorities if the facts are warranted."**

If the New York Fed has been so bamboozled by Goldman's ability to evade oversight, they should look no further than the

fact that former Goldmanites have been running the US financial system for decade. Former NY Fed Governor Bill Dudley worked at Goldman. Treasury Secretary Steven Mnuchin also worked there, and former Trump economic advisor Gary Cohn once helped run the bank. But most importantly, many of the central bank's employees yearn for the opportunity to walk through the "revolving door" leading from the doldrums of government hackery to the untold riches of the private sector.

**Need more evidence that 1MDB was the result of a systemic problem?** Look no further than Tim Leissner, the former head of Goldman's Southeast Asia operation [who recently pleaded guilty](#) to knowingly abetting money laundering and violations of the Foreign Corrupt Practices Act, alleged in his plea agreement that his actions were the result of a "culture of corruption" Goldman.

**In a statement to the court, Leissner said his behavior was "very much in line of its culture of Goldman Sachs to conceal facts from certain compliance and legal employees."** The Justice Department has also said in filings that the business culture at Goldman Sachs, particularly in Southeast Asia, prioritized consummating deals ahead of the proper operation of its compliance functions.

Still, the DOJ filings said individual bankers knowingly circumvented controls the bank had in place and hid certain details about the deal to prevent compliance officers from seeking to block the firm's involvement in the transactions.

While we're sure the people of Malaysia appreciate Goldman CEO David Solomon's [feigned "outrage"](#) over Goldman's behavior, the bank's attempts to paint Leissner as a rogue employee have been seriously undermined by reports about the

involvement of its senior leadership in the deal. Because 1MDB is just the latest in a long line of Goldman's regulator enabled disregard for the wellbeing of its client and, well, anybody who isn't Goldman. But maybe this time, the public backlash against the bank, and the decision of at least two high-profile clients to sue over 1MDB, will force Goldman to reconsider such "short-term" thinking by jeopardizing the only thing that matters to Goldman: Its client book.