



Doing God's Work

How Goldman Sachs Rigs the Game

March 2011



“The first thing you need to know about Goldman Sachs is that it's everywhere. The world's most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.”

Matt Taibbi, Rolling Stone Magazine, July 2009

Introduction

Much has been written about Goldman Sachs' immense size and power in the US, of the incessant revolving door between the bank, regulatory and political elites in Washington. But Goldman Sachs has cultivated political contacts around the world, not just in the US capital.

This report looks at how the bank's tentacles have spread throughout British and European political circles, including the regulatory centre of Brussels. Goldman Sachs often operates behind the scenes, also working through a number of business lobby groups. This report explores and exposes those links.

Critics say having friends in high places gives the firm a vital edge.¹ This has also allowed Goldman and other global banks to escape the necessary regulatory reform that many independent commentators believe is vital, especially in areas of derivatives.

There is no doubting that Goldman's image has taken a battering. In the midst of the world's worst oil spill in the Gulf of Mexico, Reuters ran an article entitled: “BP: Still not as evil as Goldman Sachs”.²

The bank's plummeting reputation is a result of a series of events: the role it played in causing the financial crisis, and its “arrogant and unapologetic attitude” in its wake, when CEO Lloyd Blankfein described the bank's activities as “God's work”.³ It was also accused by US authorities of defrauding investors out of \$1 billion,⁴ faced fines of £17.5 million for failing to tell UK regulators that it was under investigation for fraud,⁵ and was sued by three ex-employees for sexual discrimination.⁶

Under fire, Goldman Sachs responded with the biggest advertising campaign in its history, “to help the wider public understand what we do for our clients.”⁷

Yet, as banking commentator, Bethany Mclean, notes: “No outsider can tell how the firm really makes its money. It is a fear that Goldman has the game rigged, even if no one can ever prove how. Not just because of its political connections, but also because of its immense size and power.”⁸ Recent efforts at transparency – its disclosure of revenue from trading and investing⁹ - do little to allay fears. “They stopped short of doing something really big”, said one banking insider.¹⁰

What was big, though, was the firm's remuneration and bonus pot for 2010, a whopping \$15 billion or an average of \$430,000 each.¹¹

The hub of all Goldman Sachs' European activities is in London, where the bank employs some 5,500 people. And despite the financial crisis, London remains a hugely important banking centre. As a result, executives at the top of the Goldman tree have cultivated close relationships with politicians in the UK.

Friends in high places

First, there are the personal relationships with those at the top of the government. The ex-Chairman of Goldman Sachs, Richard Sharp for example, has become “an influential Tory figure”, and is said to be friendly with the Chancellor George Osborne.^{12 13}

Michael 'Woody' Sherwood is another influential figure. Worth around £225 million,¹⁴ he is in charge of Goldman's Europe, Middle East and Africa division from London. A former classmate at the elite Westminster public school with Deputy Prime Minister, Nick Clegg, he is seen as close to London's Conservative Mayor, Boris Johnson (see 'UK lobbies for Goldman Sachs... despite risk', below).

Sebastian Grigg, ex-Goldman Sachs, now an investment banker at Credit Suisse, is thought to be one of Prime Minister David Cameron's closest confidants. Described as “impossibly well connected”, Grigg met Cameron at Eton and together they joined the exclusive Bullingdon Club while at Oxford. A socialite of Cameron's West London, and former Tory candidate, Grigg has also been a fund-raiser for the Conservatives.¹⁵



Fat Cats and Fickle Taxes

In 2008, Goldman Sachs reported profits of over \$2 billion and paid federal taxes in the US of \$14 million, an effective tax rate of just one percent. Meanwhile in that same year, Goldman Sachs paid out \$10 billion in compensation and bonuses. The \$14 million Goldman paid in taxes was less than one third that it paid its CEO Lloyd Blankfein, who received \$42.9 million.^A

Government's trusted advisors

Two former directors of Goldman Sachs have also advised the Conservatives on public spending cuts. In August 2010, ex-Chair of Goldman Sachs, Richard Sharp, was one of four City figures invited by Osborne to join an “independent challenge group”, whose remit is to “question the unquestionable” in the Treasury's austerity drive. Another former Goldman Sachs director, Lord Browne has also been appointed a Whitehall 'super-director' by Cameron, to advise the government on cuts.¹⁶ The Browne Review, published in October 2010, set out controversial recommendations for the future of university funding.

Shared thinking

Goldman Sachs' people also loom large in think tanks closely associated with the Conservative government. Sharp, for example, is on the board of the Centre for Policy Studies.¹⁷



Washington Insiders

The revolving door between Goldman Sachs and US public authorities is very well oiled.

Two of Goldman Sachs' past four leaders have served as Treasury secretaries - former Goldman CEO Henry Paulson was Treasury secretary to George Bush, and Robert Rubin, employed by Bill Clinton, spent 26 years of his career at Goldman. Rubin now advises Barack Obama.

Then there are the lobbyists: Mark Patterson, the current Treasury chief of staff, was until recently a Goldman lobbyist. The bank has also hired nearly 40 lobbyists to target Congress's financial reforms, all of whom are former government employees; and according to Bethany McLean of *Vanity Fair* in her critique of Goldman Sachs: "Another source tells me about a G-7 meeting where he counted 24 to 28 out of 32 finance officials in attendance as ex-Goldman men."

The head of the New York Stock Exchange, the last two heads of the Federal Reserve Bank of New York (now in charge of overseeing Goldman), as well as the head of the World Bank are all ex-Goldman employees.^B

Conservative peer, Lord Brian Griffiths, current vice chairman of Goldman Sachs International and director of Goldman Sachs Asset Management International, is on the Advisory Council of the Centre for Social Justice, the think tank founded by Secretary of State for Work and Pensions Iain Duncan Smith. Griffiths sits on the Council alongside Foreign Secretary William Hague and Cabinet Office Minister, Oliver Letwin.¹⁸

Lord Griffiths, former head of Margaret Thatcher's Policy Unit in the 1980's, and a chief architect of her government's privatisation and deregulation programmes¹⁹ caused anger in late 2009, after saying that, in regard to excessive banking bonuses, the British public should "tolerate the inequality as a way to achieve greater prosperity for all".^{20,21}

Buying in influence

Goldman Sachs also employs a number of lobbying firms to help it influence policy in both the UK and EU.

For example, in October 2010, it appointed the PR and lobbying firm Hanover, founded and run by ex-Conservative Prime Minister John Major's press secretary, Charles Lewington. The account is led by Laura Chisholm, former head of 'home affairs' at the Conservative Research Department.²²

Everyone's friend

Goldman Sachs did not neglect its relationship with the previous Labour government either. Michael Sherwood enjoyed what were described by one commentator as "clear channels of communication with the Prime Minister", then Gordon Brown.²³

Goldman's former chief economist and partner, Gavyn Davies, is married to Sue Nye, who ran the private office of and was a special adviser to ex-Prime Minister Gordon Brown.²⁴

Simon Lewis, former director of Communications at 10 Downing Street – and Brown's official spokesman until the May 2010 general election – now heads the Association for Financial Markets in Europe, of which Goldman Sachs sits on the Board (see Lobby groups box).²⁵

Goldman was also a key banking adviser to Brown's government. In 2009, it helped manage three gilt sales and worked on a \$2bn sale of bonds by the Bank of England to finance its foreign-exchange reserves.²⁶ It also advised the government on the sale of Northern Rock.²⁷

It was only in April 2010, after Goldman had been charged of fraud by the SEC, that Gordon Brown attacked the "moral bankruptcy" of the company.²⁸

Fraudulent friends

In April 2010 Goldman Sachs' officials in the US were accused of "defrauding" investors by misstating and omitting key facts about a financial product tied to subprime mortgages.

Goldman was quick to refute the allegations as "completely unfounded". One Goldman email – sent days after being accused – to the office of the head of the European Commission said: "Goldman Sachs would never condone one of its employees misleading anyone, certainly not investors counterparties or clients". But by July 2010, the bank had settled with the US authorities by paying a \$550 million fine, the largest penalty imposed on a Wall Street bank. It still only amounted to about a week's worth of trading revenues.

Six months later, in January 2011, it was reported that Goldman faced fresh criticism over conflicts of interests in its operations from an influential Senate Committee that might persuade regulatory officials to reopen their investigation into the bank. ^c



Jumping through the revolving door

Ex-Goldman people have also walked into key public positions in the UK: former chief economist at Goldman, the late David Walton, was handed a seat on the Bank of England's interest-rate setting Monetary Policy Committee (MPC), and Paul Deighton, a former chief operating officer at Goldman, now runs the London Olympic Games organising committee.²⁹ In March 2011, Ben Broadbent, an economist from Goldman Sachs joined the MPC.³⁰

Funding the party

Over the last decade, senior Goldman Sachs and ex-Goldman Sachs bankers have donated £8.8 million to Britain's political parties.

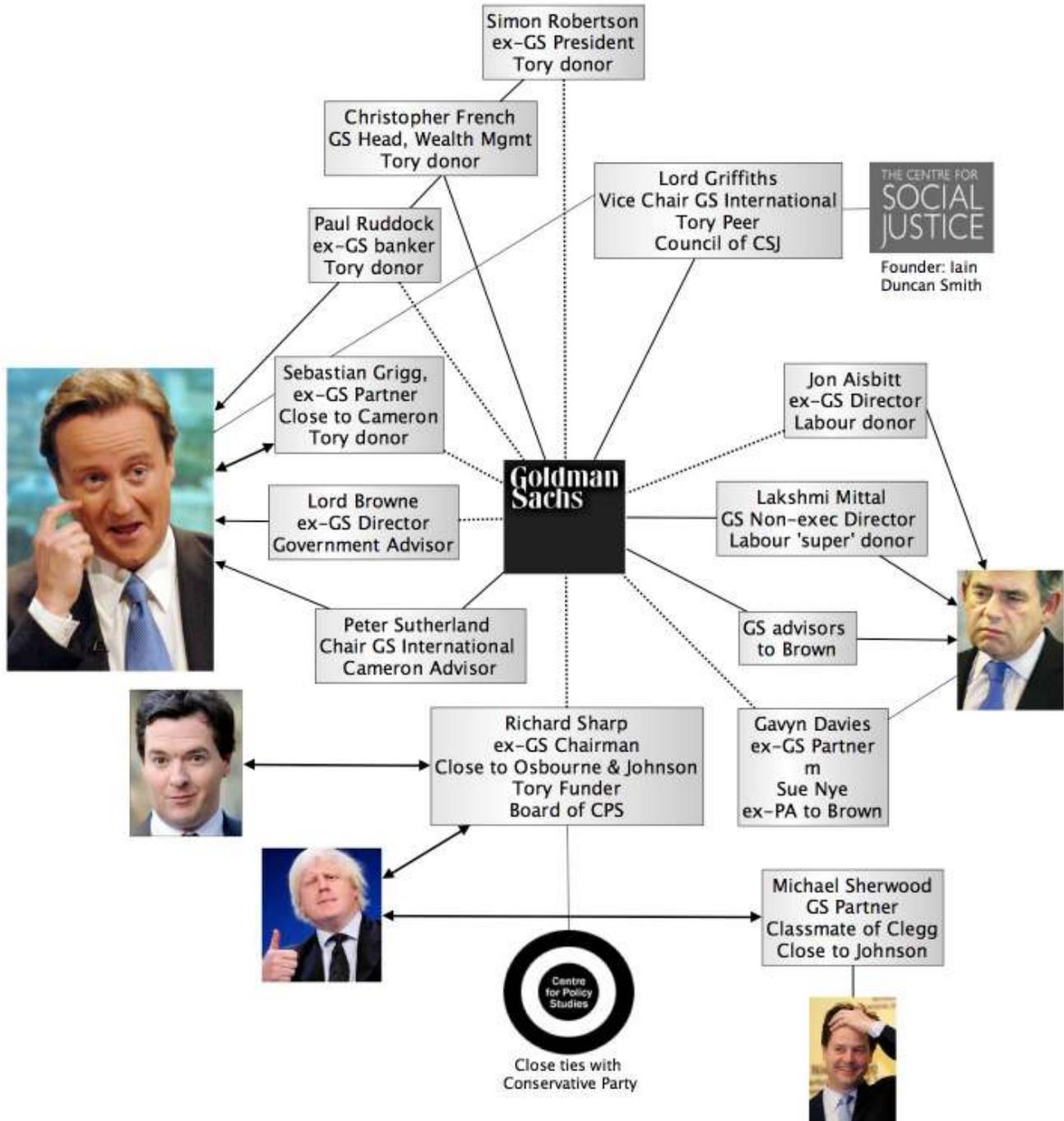
Conservative payouts

- **Richard Sharp: £404,000** donated to the Conservatives since 2002. ³¹Ex-Chairman of Goldman Sachs' Principal Investment Area in Europe spent 22 years at the firm (he left in December 2006).³² Sharp is also a supporter and funder of Tory Mayor, Boris Johnson's Fund for London, both personally and through his Sharp Foundation.³³
- **Simon Robertson: £397,500** donated to the Conservatives since 2002. Hugely influential ex-president of Goldman Sachs Europe and MD of Goldman Sachs International (he left in 2005). Robertson was knighted in June 2010, a month after the Tories took office, and two months after he made them a donation.³⁴
- **Christopher French: £100,000** to the Conservatives in 2008 and 2010. Head of wealth management at Goldman, his last donation to the party was on the 4 May 2010, two days before the General Election.³⁵
- **Paul Ruddock: £486,500** to the Conservative party since 2003.³⁶ Formerly of Goldman Sachs, he is now Chief Executive of Lansdowne Partners Limited, an investment management firm.
- **Michael Hintze: £1.3 million**³⁷ donated to the Conservative Party as well as a £2.5 million loan. The former head of equity trading at Goldman Sachs, before founding CQS fund in 1999,³⁸ is reportedly close to a number of high-profile Tories, including Nigel Lawson and defence minister Liam Fox.³⁹

Labour payouts

- **Jon Aisbitt: £1 million** to the Labour Party since 2005 from the former Goldman Sachs partner.^{40 41}
- **Lakshmi Mittal: £5,125,000** to the Labour party since 2001 from the steel magnate and non-executive director of Goldman Sachs.⁴²

Goldman Sachs' UK political connections





Hiding Greece's Debt

In February 2010, the US authorities began investigating Goldman Sachs for its involvement in a series of complex currency swaps that helped Greece trim more than €2bn from its national debt just after it was admitted to Europe's monetary union.

Goldman and Greek officials say the swaps deals were legal, but critics argue that because the swaps were treated as a currency trade rather than a loan, buyers of Greek debt were misled about the country's true fiscal position.

Those who did not know the full picture included the European Central Bank and the EU's statistics agency, Eurostat, whose director said: "It has been clear that the Greek government has been using certain financial derivatives for the purpose of artificially reducing its debt and has not reported them". Some MEPs called for an investigation into how Goldman allowed Greece to conceal its public debt.

One senior Goldman Sachs banker conceded that, "with the benefit of hindsight... the standards of transparency could have been and probably should have been higher".^D

Goldman Sachs' efforts to court European politicians are by no means limited to the UK. Other governments across Europe are also beset with similar problems experienced in the UK – from privileged access, a revolving door and the potential for conflicts of interest.

Italy: The bank has been accused of simply "running" the country.⁴³ Mario Draghi, governor of the Bank of Italy, was a vice-president and managing director at Goldman Sachs in London from 2002-05.⁴⁴ Mr Draghi is also head of the Financial Stability Board and a member of the European Central Bank governing council. However, the recent fraud case in the US is said to have dented its relationship with the Italian government.⁴⁵

Germany: Goldman Sachs has been "a partner for successive governments in Berlin", despite the presence of Deutsche Bank. Alexander Dibelius, head of Goldman in Germany, is said to "have excellent contacts" in the Finance Ministry and the office of chancellor Angela Merkel. Goldman is said to be a vital partner for both the federal debt financing agency and KfW, the state-owned development institution.⁴⁶

France: The recent fraud case in the US has not damaged Goldman Sachs' political connections. Christine Lagarde, the country's finance minister, has ruled out dropping Goldman Sachs from its relationship with the Treasury.

Philippe Gudin de Vallerin, the Director for Macroeconomic Policies and European Affairs, Ministry of Economy, Industry and Employment, is also ex-Goldman Sachs.⁴⁷

UK lobbies for Goldman Sachs... despite risk

As we've seen, Goldman Sachs has been very adept at cultivating contacts with key politicians in the UK from all political parties. The bank has also targeted the Conservative Mayor of London, Boris Johnson, who, in turn has been an enthusiastic champion of the City and its interests both at home and in Brussels.

Correspondence between the bank and the Mayor, outlined below, point to a close, social relationship developing at a time when UK regulators were voicing serious misgivings over Goldman's management of risk.

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Even after the financial crash, risk practices among investment banks like Goldman Sachs were found wanting. Documents released under the Freedom of Information Act show that the Financial Services Authority – in a review of risk management by leading investment banks in late 2009 – identified “Poor practices” such as:

- **No real challenge evidenced by the Board and the lack of a focused risk discussion;**
- **Board engagement limited to set-piece Board meetings;**
- **The CEO and CRO view their role as one of education, with the Board failing to influence the way the business is run;**
- **Insufficient time allocated to discuss risk.**

The FSA also severely criticised the banks over their “risk framework”, detailing “poorer practices” that included:

- **Remuneration and performance assessment of risk staff predominantly based on revenue and profits of the business;**
- **A risk appetite that is not uniformly understood and embedded across the organisation;**
- **The firm failing to ask itself sufficiently about the downside of any deal, but instead focuses on the upside: client demand, league tables and revenues. Culturally, downsides should be presented as part and parcel of new business proposals.^E**

Michael Sherwood, head of Goldman’s Europe, Middle East and Africa division has donated over £25,000 to the Mayor’s charity for disadvantaged youth, of which he is also a trustee. In a letter to Johnson, he explained how “personally excited” he was about Goldman Sachs working on the fund with the Mayor.⁴⁸

In December 2009, Johnson addressed a breakfast for Goldman Sachs’ European Management Committee. Sherwood described the subsequent “discussion” between the Committee and Mayor, as both “a privilege” and “a truly great start to the day”.⁴⁹

Later that month Johnson invited Sherwood to attend a lunch with the then shadow chancellor, George Osborne. It was to be hosted by Stuart Popham, senior partner at Clifford Chance – the law firm representing American banks in their lobbying efforts against EU efforts to toughen regulation. Popham is also Chairman of the financial services lobby group TheCityUK, which includes executives from Goldman.⁵⁰

“The purpose of the lunch”, according to a letter from Johnson, “is to discuss threats to London’s competitiveness as a global financial centre”, as well as “to hear your concerns and suggestions, and to reassure you that we remain committed to doing all we can to ensure London retains its position.”⁵¹

Days before the lunch, Johnson wrote to Goldman’s Chair and CEO, Lloyd Blankfein, to restate his support for the City: “I will strongly defend London’s financial services industry against the threats of punitive taxation and new burdensome EU regulations”, he wrote.⁵²

Would Johnson have been more cautious in his support for the financial sector had he known of the continuing misgivings of UK regulator, the Financial Services Authority (FSA), over investment banks’ poor approach to risk management? (see left).

Despite the FSA’s concerns about the sector, Goldman CEO, Blankfein “ranks risk management as his no.1 daily priority, even ahead of doing God’s work,” wrote the *Financial Times*’s William Cohan in November 2009. Cohan quotes Blankfein as saying: ‘I’m a risk manager and I’ve been that for a long time, a lot longer than I’ve been CEO.’⁵³

Meanwhile, Goldman’s relationships with politicians thrived: Boris invited Sherwood to work with him on Corporate Social Responsibility and Welfare to Work;⁵⁴ just days into the new Coalition government, Goldman’s head of global investment research met with the Treasury’s senior advisor on financial stability; and the following month, Sherwood and Richard Gnodde, Goldman International’s other CEO, secured a meeting with Mark Hoban, new Financial Secretary to the Treasury. What was discussed at this meeting, however, will never be publicly known as no agenda or formal minutes were taken, despite David Cameron’s pledge that his Ministers must be “transparent about what we do and how we do it”.⁵⁵



Goldman's lobbying machine

Goldman Sachs is a member of over a dozen financial industry lobby groups. Their aim is to influence financial services policy-makers in London and Brussels:

Alternative Investment Management Association (AIMA): Goldman Sachs (Asia); Goldman Sachs (Cayman) trust, and Goldman Sachs International are members.

Association of Financial Markets in Europe (AFME): Glenn Earle, Chief Operating Officer Goldman Sachs International is a board member.

British Private Equity and Venture Capital Association (BVCA): Goldman Sachs is on the BVCA's Global Buy-out Committee which works to ensure that any lobbying accurately represents the interests of the BVCA's larger members. CEO of BVCA, Simon Walker, was a special adviser in the Prime Minister's Policy Unit. (1996-97).

Depository Trust & Clearing Corporation (DTCC): Robin Vince, Head of Operations for Goldman Sachs is on the board.

European Parliamentary Financial Services Forum (EPFSF): Jennifer Cosco, Goldman Sachs' lobbyist in Brussels represents the bank as a corporate member.

EUROFI: a European think tank dedicated to financial services of which Goldman Sachs is a member.

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A Constant Companion to Regulators

Much of the regulation and legislation affecting the banking sector originates in Brussels. Goldman Sachs, its lobbyists and the very many lobby groups it is part of (see left) have been pushing hard to influence regulation in Brussels, both pre- and post-financial crisis. The sheer scale of its lobbying efforts, however, dwarfs competing voices, leading to a huge disparity in influence.

"Of course all the big institutions come and lobby", explains one senior ex-European Commission official. "They know how the system works. All the big institutions either come individually or they come through trade associations".

"The Commission is trying to move to a more even-handed approach" the former official continues. "The problem is that Goldman Sachs – or whoever it is – will send you a team of market experts, who have got tremendous knowledge. But the consumer side is grossly underfunded."

Take the European Commission's formal system of 'Expert Groups', established to advise on policy. Goldman Sachs has been an enthusiastic participant in this process in relation to the financial sector, but consumer groups have been nearly completely absent or excluded from the process.

Before the financial crisis, for example, when the Commission was developing its Financial Services Action Plan (the EU's first strategy for establishing a common set of rules for Europe's financial sector⁵⁶), Goldman was advising the Commission on "imperfections and practical obstacles" to a single market as a member of the Forum Group of Market Experts on Market Manipulation.^{57 58}

When it came to reviewing the Action Plan in 2004, Dr Matthias Bock from Goldman Sachs International was also at the table, as a member of the Securities Expert Group.⁵⁹

When the Commission started considering regulation on hedge funds, Segun Aganga from Goldman Sachs – Nigeria's future finance minister – was on an Expert Group to help Brussels decide how.⁶⁰

And when European Commissioner Charlie McCreevy set up a group to advise on reforms for derivatives, Goldman Sachs was again well represented (see Derivatives Trading below).

Post financial crisis, the bank's tentacles have also reached right into the heart of the reforms being considered by Brussels.

The European Fund and Asset Management Association (EFAMA): Goldman Sachs is a corporate member.

European Services Forum (ESF): Richard O' Toole, a Goldman Sachs Board Member is Chairman of the lobby group's policy committee.

The European Venture Capital Association (EVCA): Goldman is a member of its Large Buyout Platform Council / European Private Equity Roundtable.

Futures and Options Association (FOA): Goldman Sachs' Finbarr Hutcheson is on the board. Goldman's Roger Bartlett is chair of the Clearing Committee; Bronwen Bentham-Wood is Chair of the Listed Derivatives Legal Working Group, and Victoria Attwood Scott is on the Metals Working group.

The International Capital Markets Association (ISMA): Lisa Rabbe (see below) sits on the ICMA's Regulatory Policy Committee. Representatives from the bank also sit on ICMA's Primary Market Practices Sub-committee, Legal and Documentation Sub-committee, Euro Commercial Paper (ECP) Sub-Committee, and ICMA Euro Debt Market AMTE Council.

The International Swaps and Derivatives Association (ISDA): Goldman is a Board Member.

Managed Funds Association: Goldman is a strategic partner. ^F

When the Commission formed a High Level Group to advise the EU on the response to the financial crisis, one of the seven members of the so-called De Larosiere Group, Otmar Issing was an advisor to Goldman Sachs – “a strategic coup” for the bank.⁶¹

Perhaps less surprising is Goldman's seat on the Group of Experts in Banking Issues, set up in June 2010 to “facilitate direct communication between the banking industry, consumers and the European Commission”.⁶² Once again, this Expert Group was comprehensively dominated by industry.

However, its over-reliance on advice from bankers has been noted by the Commission and Internal Market Commissioner, Michel Barnier, has now vowed to change the *status quo*. “I remain convinced that more needs to be done to enhance the active participation of civil society organisations in Internal Market policymaking in order to fully achieve a fair balance,” he said in the Autumn of 2010.⁶³

Commissioner Barnier's spokesperson, Chantal Hughes, admits that since Barnier took office: “We have seen a lot of bankers, we have seen a lot of people from the financial industry”.⁶⁴ Others go further as to why reform is necessary. One Commission official, speaking on the condition of anonymity, adds: “I think it could be argued that there are occasions when we haven't been as independent as we could have been”.⁶⁵ So far, however, reform has been limited to inviting one or two NGOs onto an Expert Group, which is still dominated by the industry.

Lobbying against EU reforms

Legislators in Brussels, like those in Washington and London, were taken aback by the scale of the recent financial crisis. Action was needed, they decided, to prevent the same from happening again. One of their key targets for reform is the global trade in derivatives. Goldman Sachs, which is a huge derivatives player went into action along with its lobbying groups.

Derivatives have become a major area of concern outside the industry and are seen as being largely responsible for the recent financial crisis.

Giving evidence to the Financial Crisis Inquiry Commission hearing in the US, in June 2010, Michael Greenberger, from the University of Maryland noted that it was “now almost universally accepted that the unregulated multi-trillion dollar” over the counter Credit Default Swap (a type of derivative) market “helped foment a mortgage crisis, then a credit crisis, and finally a once-in-a-century systemic financial crisis”.⁶⁶

The amount of money being traded in the unregulated derivatives market is huge. In October 2008, at the height of the crisis, the value of the unregulated over the counter (OTC)

The logo for the International Swaps and Derivatives Association (ISDA) is displayed in a large, bold, serif font. The letters are white and set against a dark, textured background that appears to be a close-up of a surface with some grain or noise.

"The most powerful and effective lobbying force in the recent history of financial markets."

The International Swaps and Derivatives Association (ISDA) has led the industry fight against derivative reform in the EU and US. Goldman Sachs is a key player in the lobby group.

Take the European Commission's Expert Group set up to look at derivatives regulation. Of the 34 corporate members, over 70% are linked to the ISDA." Goldman Sachs is also a Group member in its own right.

ISDA's lobbying efforts in Brussels are spearheaded by Roger Cogan, formerly of Hill & Knowlton, one of the world's most notorious PR companies.

Membership of the ISDA allows Goldman Sachs to lobby hard behind the scenes. As Vice President of Derivatives at Goldman, Sebako Siami, says: "I've had the opportunity to influence how the industry moves forward through our participation in ISDA Working Groups. This is one of the areas in which Goldman Sachs excels."⁶

derivatives market was estimated to be in excess of \$600 trillion. Experts believe that conservative estimates of the amount of money "at risk" in the CDS derivatives market at the time of the meltdown was about \$52 trillion, which almost equals world GDP.⁶⁷

Goldman is a huge derivatives player, holding just under of \$50 trillion of derivatives contracts as of March 2010. In August 2010, the bank conceded that 25 percent to 35 percent of its revenue comes from derivatives, accounting for some \$11.3 billion to \$15.8 billion of revenue in 2009.⁶⁸

It is, therefore, not surprising that from the moment regulation was mooted by the European Commission in April 2008, those involved in the industry were lobbying hard against reform, including Goldman Sachs.

When, in November 2008, the Commission set up a Working Party on Derivatives to look at reform, Goldman Sachs was represented on six of sixteen industry lobby groups that largely comprised the Working Party (see 'Goldman's lobbying machine' above).⁶⁹

One of these lobby groups is the International Swaps and Derivatives Association (ISDA), which represents the derivatives industry and has taken the lead on influencing the EU's reforms (see left).⁷⁰ Goldman is an influential board member of the ISDA.

Knowing that reform of the unregulated market was coming, the ISDA and banks like Goldman Sachs conceded that one way to regulate the trade would be if transactions were cleared through a central exchange known as a central counterparty (CCP), or clearinghouse.

As the *New York Times* has pointed out: "Critics contend that the bankers will try to keep many types of derivatives away from the clearinghouses, since clearinghouses represent a step towards broad electronic trading that could decimate profits."⁷¹ However other commentators have argued that, although this reform was needed, it did not go nearly far enough. Much greater reform – or even banning - of some types of derivative trading had been avoided by the industry.⁷²

By July 2009, the Commission had agreed that a central exchange, the CCP, was a good idea and would lower risk and increase transparency.⁷³ Publicly though the ISDA continued to attack the reform, immediately condemning it as "a step backwards"⁷⁴ and arguing that there is no "risk-based case of market-failure" to justify the regulatory move to exchange-based trading. Indeed, it argued that "the commodity market is already evolving to manage risks efficiently and effectively – and should be allowed to continue to evolve".⁷⁵

Knowing the some regulatory reform was inevitable, the ISDA went for a delaying tactic. In its submission to the Commission's



The high price of speculation

One of the most destructive ways derivatives have been used is in commodity speculation, and at the heart of the spike in food and oil prices is Goldman Sachs. The bank has been a key driver of commodity price volatility. It is one of the largest derivative dealers, and set up and runs the most famous commodity index: The GSCI or Global Sachs Commodity Index, about two thirds of which is devoted to crude oil and other energy-based commodities.

The bank was one of a number of key institutions behind the oil speculation bubble of 2008 that saw prices rise to \$150 a barrel. At its peak, at least three quarters of the activity on the commodity exchanges was speculative, with a barrel of oil being traded 27 times, on average, before it was actually delivered and consumed. That year oil reached a high of \$147 in the summer, up from \$60 the year before.

What happens to drive up prices is that investors basically only take “long” positions – i.e. they bet that oil will rise, which becomes a self-fulfilling prophecy. If speculators also took ‘short’ positions, prices would be pushed both up and down. With oil prices only rising, eventually the bubble had to burst and it did spectacularly when Lehman Brothers collapsed.

Oil is not the only commodity being speculated to disastrous effects. Another is food. Once again Goldman is to blame.

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consultation on the matter, it warned that “hasty solutions that are imposed could be counterproductive” and “stressed the need for staggered, thoughtful implementation time frames.”⁷⁶

Ironically whilst the ISDA was publicly lobbying against the need for centralised clearing, Goldman Sachs was publicly saying it was a good idea and a great way to reduce risk. At a European Commission conference entitled “Derivatives in Crisis – Safeguarding Financial Stability”, Pablo Salame, Goldman’s co-head of trading and sales shared a platform with one of the key EU officials involved in derivatives reform, David Wright, then Deputy Director General of DG Internal Market and Services.⁷⁷ Salame said: “The push towards clearing is an unequivocally good thing ...It is a very efficient mechanism for netting down counter party risk... It is critical that we actually add it to the system.”⁷⁸

ISDA was not the only Goldman lobby group active in the debate in Brussels. In late 2009, the Association for Financial Markets in Europe (AFME) was formed by the merger of two other financial lobby groups. In October 2009, David Wright met the lobby group to talk about OTC Derivates reform as well as the Alternative Investment Fund Management Directive (AIFM).⁷⁹

Early the next month, just days before AFME’s official launch, four senior Commission officials – Wright, as well as Emil Paulis (Director of Services Policy and Financial Markets), Patrick Pearson (Head of Financial Markets and Infrastructure), and Maria Valencia (Head of Securities Markets) had a private dinner with AFME’s European Public Policy Committee that consists of the top lobbyists from 25 investment banks. Lisa Rabbe from Goldman was there.⁸⁰

Up for discussion were strategic direction of the Commission on financial regulation, as well as specific conversations on OTC Derivatives and two other Brussels Directives, the Markets in Financial Instruments Directive (MiFID) and Capital Requirements Directive.⁸¹

Goldman Sachs followed up with a 60 minute presentation to Wright on MiFID, arguing that “the case has not yet been made out for additional regulation”.⁸²

Two months later, in January 2010, Patrick Pearson, the leading Commission official overseeing the derivatives reform had a private meeting with ISDA’s European regulatory committee. The same month, two executives from ISDA met David Wright to discuss derivatives and Credit Default Swaps.⁸³

During the year there were many high-level conferences where Pearson was on platforms with the bank – ideal lobbying opportunities.^{84 85 86} Pearson also spoke at conferences organised by AFME (at events in London and Brussels) and ISDA.⁸⁷

An investigation by the Senate Committee into the issue of food speculation concluded that: “During the mid-2000s, a number of financial institutions, including Goldman Sachs, made strong recommendations for investors to purchase commodity index instruments.”

In an article on the Food Bubble for *Harpers Magazine*, Frederick Kaufman, explains why prices kept rising: “No matter what lofty highs long wheat futures might attain, the managers would transfer their long positions into the *next* long futures contract, due to expire a few months later, and repeat the roll when that contract, in turn, was about to expire – thus accumulating an everlasting, ever-growing long position, unremittingly regenerated.”

The strategy of always betting long, “evolved by the Goldman Sachs managers”, was criticised by UN Rapporteur on the right to food, Olivier de Schutter, as “producing a vicious circle of prices spiralling upward.”

Such speculation was having an effect. As early as 2006, Merrill Lynch argued that commodities were trading at prices 50% higher than they would have been based only on the usual supply and demand criteria. Wheat prices increased 80 per cent on the world market and the cost of maize rose nearly 90 per cent.

Goldman Sachs denied its role in pushing up prices, and the International Swaps and Derivatives Association claimed it had been “driven by a shift in fundamentals... including “increased demand from developing countries”.^H

As part of the lobbying assault, both Commission officials and MEPs and their assistants were targeted. In February, the bank’s Global Head of Regulatory Affairs met Wright again.⁸⁸ The following month, Goldman Sachs met Director-General for Economic and Financial Affairs Marco Buti to discuss the Greek crisis⁸⁹, in which its own Credit Default Swaps (CDS’s) were implicated (see box). A year before, the bank’s spin doctor, Lisa Rabbe had written to the then Director General of DG Internal Market and Services, Jorgen Holmquist concerning CDS, warning about “possible over regulation”.⁹⁰

MEPs were also lobbied. For example, in September 2010 the European Parliamentary Financial Services Forum (EPFSF), of which Goldman Sachs is a corporate member, organised a training seminar on derivatives for MEPs’ assistants.⁹¹ One of the speakers was the Depository Trust And Clearing Corporation (DTCC) lobbyist, Andrew Douglas. Goldman Sachs’ head of operations, Robin Vince, sits on the board of the DTCC.⁹²

The bank was lobbying politicians hard. Just a month before the Commission published its position on derivatives, Goldman Sachs’ lobbyist Lisa Rabbe – a one time advisor to the UK Government on banking policy – requested a meeting for co-CEO at Goldman Sachs International, Michael Sherwood and the then EU Commissioner Charlie McCreevy to discuss “reform priorities”, including derivatives.⁹³

Kay Swinburne, a central MEP on the Parliament’s Economics and Monetary Committee – the key committee examining derivatives reform – met Goldman Sachs, its lobby groups or PR companies acting on their behalf, nine times in six months.

In total, four Tory MEPs, including Syed Kamall, who is a substitute on the ECON committee, met Goldman Sachs, its lobby groups or PR companies acting on their behalf 36 times in six months. That equates to six meetings a month, or over one a week. Issues being discussed included derivatives and the Alternative Investment Fund Directive, amongst others.⁹⁴ And that is just one political party from one country.

It is not just Conservative MEPs who have been targeted. The lead Green MEP on the ECON Committee, Sven Giegold, was approached by the ISDA’s Roger Cogan to discuss the Parliament’s report on Derivatives, underlining that “derivatives are extremely important to real economy companies... (they are not, as some would believe, simply complex ‘playthings’ traded speculatively between investment banks).”⁹⁵

The Committee also received two presentations in early 2010 from the ISDA and European Corporate Treasurers Association, both briefing the MEPs on derivatives.⁹⁶ For example, the first event outlined how “Derivatives play a vital role in economies, helping organisations to manage and reduce their risks”.⁹⁷

Extra lobbying power

As well as its in-house lobbyists, and influence through its membership of lobby groups, Goldman Sachs hires in extra help from lobbying agencies.

It employs no less than three lobbying firms in the UK: Lexington Communications; Hanover, which provides it with UK political consultancy; and Cicero Consulting, a specialist in financial sector public relations, which provides the bank with “EU monitoring”.

Cicero claims to be able to “influence the development of the new financial architecture.” When in June 2010 a group of MEPs launched a campaign urging the establishment of a ‘counter lobby’ to hugely powerful banks like Goldman Sachs – calling the banking lobby a “danger to democracy” – Helena Walsh of Cicero jumped to the bankers’ defence. Walsh was a political adviser to the European Parliament’s Economic and Monetary Affairs Committee for five years.¹



The ISDA, working with other financial lobby groups, also attacked amendments that criticised financial speculation. Commenting on amendments that had been tabled to the report by Werner Langen MEP on *Efficient, Safe and Sound Derivatives*, ISDA and the others objected to an amendment that referred to the “harmful impacts (for EU and developing countries) of commodity market speculation”.

The ISDA took offence to the word ‘speculation’, calling it “emotive, ill-defined, and often refers to activities which are simply part of broad hedging and investment strategy, or even investment facilitation service ... Where volatility exists, it is generally due to supply/demand factors (subsidies, tariffs and other trade restrictions, economic growth, natural phenomena).”⁹⁸

On the 15 September 2010, the Commission put forward its proposal for reform of the OTC derivatives industry, with a vote expected in April 2011.

The lobbying continues. Just days before the Commission’s proposals were launched, Jerry Corrigan, the Chair of Goldman Sachs USA, phoned David Wright,⁹⁹ by now a fellow at Oxford University. Wright and Kay Swinburne MEP were both speakers on the “European Regulatory Dynamic” at the bank’s exclusive European conference in October 2010.¹⁰⁰

In the meantime, Goldman Sachs and the ISDA were awarded the 2010 Worst EU Lobby Awards for “aggressive lobbying to defend their financial weapons of mass destruction,” as derivatives have been called.¹⁰¹

In March 2011, it was revealed that MEPs from different political parties had tabled identical amendments, including those taken directly from financial lobbyists, for a Parliament report on one of the most controversial derivatives, Credit Default Swaps.¹⁰²

Alternative Investments

At the same time as attempting to reform derivatives trading, legislators in Brussels were attempting to regulate hedge funds and private equity.

The Alternative Investment Fund Managers (AIFM) Directive, as the regulation is known, was identified by the hedge fund and equity industry as the most important legislative process it had ever faced.¹⁰³

When the Directive was first published by the European Commission in April 2009, MEPs pointed out that it was “full of loop-holes.”¹⁰⁴ Even so, a whole host of lobby organisations and politicians close to Goldman Sachs set about attacking it. Andrew Baker, the Chief Executive of AIMA, said his lobby group was mobilising the industry, saying they wanted a total rewrite of the Directive.¹⁰⁵

Financial services lobby group, Eurofi, with input and support from Goldman Sachs and other banks, set about lobbying Michael Barnier, European Commissioner in charge of regulating banks and hedge funds. Fortunately for the industry, Eurofi's co-President, Jacques de Larosière, who approached Barnier, is former chair of a high level team appointed by the Commission to report on the financial crisis.¹⁰⁶

Two other Goldman lobbying vehicles, The European Venture Capital Association (EVCA) and the Association of Financial Markets in Europe (AFME) enlisted the help of Nickolas Reinhardt, one of Brussels' top financial lobbyists and an ex-adviser to both the former UK City Minister Lord Myners and London's Mayor, Boris Johnson.¹⁰⁷

In December 2009 alone, Reinhart twice approached key MEPs on the Parliament's Economic and Monetary Affairs Committee over the AIFM Directive, once on behalf of EVCA – he sits on its public affairs committee - and once for AFME.¹⁰⁸

Reinhart was also present at the AFME dinner with David Wright, Emil Paulis, Patrick Pearson and Maria Valencia. Just days before the dinner, he wrote to Wright saying "I would like to touch base with you again on the AIFMD. We are having a dinner tonight with the private equity industry to work out a common position on third countries. We have been working on an idea that might act as a workable solution for the industry at large."¹⁰⁹

Reinhart was networking closely with both Lord Myners and Boris Johnson and both made lobbying trips to Brussels to campaign against the Directive.

By May 2010, there had been 1,600 amendments tabled on a draft report, which was being prepared by MEPs. It is estimated that half of these came from financial lobbyists.¹¹⁰

MEPs were being swamped by financial lobbyists. Indeed most of the lobbying of Tory MEPs undertaken by Goldman Sachs's lobby groups was focussed on the AIFM Directive – one Tory MEP lists 124 "lobbying contacts" related to that Directive.¹¹¹ That equates to one 'contact' every working day for six months. In total, some 2000 amendments to the Commission's proposals were tabled by European Parliamentarians.¹¹²

It wasn't just MEPs under fire. Commission officials were being targeted too. AFME, another Goldman-backed lobby group, made contact with Commissioner Barnier's head of Cabinet, Olivier Guersent, with an invitation to attend June's AFME's board meeting and its Brussels conference "Financial Markets and the Real Economy".¹¹³ AFME had managed to secure as its keynote speaker, Jörgen Holmquist, the then Director General for Markets,¹¹⁴ the Commission's most important bureaucrat under Barnier.

The EVCA, with Goldman's involvement, teamed up with a number of other financial sector groups to lobby senior Commission officials and MEPs to coincide with June's G-20 Summit on Financial Markets and the World Economy. They warned the Commission that any "financial reforms should not have a disproportionate impact on growth".¹¹⁵

Throughout most of 2010, Goldman Sachs was also putting forward its own views to Commission officials. European Commission President Barroso has been the target of Goldman lobbying. For example, Barroso's senior advisor on economic affairs, Michelle Sutton, met with Goldman Sachs's global head of Government Affairs for an 'after office hours' meeting in early June. No minutes exist for the meeting.¹¹⁶

In September, yet another event part-funded by Goldman Sachs, the Eurofi Financial Forum, played host to José Manuel Barroso, as well as Commissioner Barnier, Pearson, and the majority of key Commission officials and MEPs working on financial reform.¹¹⁷ Patrick Pearson joined Goldman CEO, Lloyd Blankfein, at his table for dinner.¹¹⁸ Blankfein drew much criticism after issuing a clear warning in his speech to the conference that the bank could shift its operations around the world if regulatory crackdown on the industry becomes too tough in certain jurisdictions, ie Europe.¹¹⁹ Blankfein changed his tune in a private letter to Pearson following the event, saying that Goldman Sachs supported regulatory reform in the EU and that "we place great importance in our relationship with policy makers and regulators."¹²⁰

When the regulatory crackdown came it was not too tough at all. When the draft of his report was made public in November 2010, rapporteur Jean-Paul Gauzès, in a classic understatement, said: "The text is not perfect but texts are never perfect."¹²¹ That month the European Parliament endorsed Gauzès' report and the Directive was formally adopted in November 2010.

Thanks to the lobbying efforts of Goldman Sachs and others in the industry, much of the murky world of finance will escape oversight and control. As Private Equity News pointed out "lobbying by MPs, lawyers and trade bodies has helped the buyout industry soften new European rules".¹²²

Will the Unseen Squid Win?

Goldman Sachs remains one of the most influential and powerful global merchant banks, although its influence is often hidden. The bank has undue political access directly as well as through a whole host of financial industry lobby groups, and by corporate donations to politicians.

Overtly the bank does not have much of a lobbying presence, but by these covert channels the squid wraps its tentacles unseen around our democratic process. Such is the concern

over Goldman's influence along with lobby groups such as ISDA that the two won the Worst EU Lobby Award in 2010.

This report has given a synopsis of the bank's lobbying activity in Europe. Much, much more could be written about its influence in the US. If there is to be genuine regulatory reform of the banking sector on both sides of the Atlantic, then the reform process cannot be captured by the very banks that are opposed to the reform.

The entire regulatory process has to become significantly more transparent and accountable. Without such reform, the next crisis will only be a matter of time.

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