

Rep. Peter Welch on Monday called on the Securities and Exchange Commission to expand its investigation into allegedly fraudulent securities sold by Goldman Sachs to determine whether the federal government can recoup bank rescue funds.

In a letter to SEC Chairwoman Mary Schapiro, Welch joined Reps. Peter DeFazio (D-Ore.) and Elijah Cummings (D-Md.) in asking the SEC to determine whether taxpayer support received by the American International Group (AIG) was transferred to Goldman to cover fraudulent activities.

On Friday the SEC filed a civil suit against Goldman alleging the firm misled investors by failing to disclose that one of 25 collateralized debt obligations (CDOs) sold by the firm was designed to fail. Seven similar CDOs were guaranteed by credit default swaps from AIG. Of the \$180 billion AIG received in taxpayer assistance, \$12.9 billion was transferred to Goldman to settle the bad credit default swaps.

In the letter to the SEC, Welch and his colleagues seek to determine whether the investments covered by AIG – and, by extension, taxpayers – were also fraudulent.

"The cynicism of Goldman Sachs using taxpayer funds to cover its own fraudulent activities would be breathtaking," Welch said. "The SEC must turn over every stone to determine the extent of the fraud and recoup taxpayer money."

The letter is copied below:

The Honorable Mary Schapiro  
Chairwoman  
U.S. Securities and Exchange Commission  
100 F St. NE  
Washington, DC 20549

Dear Chairwoman Schapiro:

Thank you for your continued efforts to restore the role of the Securities and Exchange Commission (SEC), "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation." The SEC announcement of civil securities fraud charges against Goldman Sachs and Fabrice Tourre is welcome news to both investors and the taxpayers who bailed out Wall Street. The failure of the Bush administration to enforce these laws ultimately undermined the financial markets and contributed to the economic turmoil of the last three years.

As you know, the SEC complaint makes disturbing allegations of fraud against Goldman Sachs. The SEC has alleged that Goldman Sachs enticed investors into long positions in a synthetic collateralized debt obligation (CDO), while unbeknownst to investors the CDO was specifically designed by hedge fund manager John Paulson to generate losses for short positions taken by Paulson and Goldman Sachs's proprietary accounts. We are grateful that the SEC is seeking a court order for Goldman Sachs "to disgorge all illegal profits that they obtained as a result of their fraudulent misconduct." The U.S. taxpayer deserves nothing more.

The complaint is based on a single CDO known as ABACUS 2007-AC1. However, the ABACUS 2007-AC1 offering was part of a series of 25 such CDOs, all arranged by Goldman Sachs. It is not beyond the realm of comprehension that the 24 remaining ABACUS transactions included similar materially misleading statements to investors in order to protect Goldman's internal proprietary bets, or other coveted counterparties like Mr. Paulson.

Seven of the ABACUS CDOs were guaranteed by credit default swaps from the American International Group (AIG). These seven AIG-insured CDOs contributed to billions of dollars in losses at AIG according to the New York Times.

Should any of these transactions be found to include fraudulent conduct, any resulting contractual payments from AIG-issued credit default swaps could be viewed as ill-gotten gains. In light of the U.S. Treasury and Federal Reserve Bank of New York's extensive and unprecedented support of the insurance giant and the \$12.9 billion in taxpayer dollars that AIG transferred to Goldman Sachs to settle the bad credit default swaps, it is imperative that the SEC pursue the recovery from Goldman Sachs of any fraudulently obtained AIG payments.

Accordingly, we request that SEC, with all due haste, pursue investigations into the remaining 24 ABACUS transactions for securities fraud, evaluate the extent of any receipt, by Goldman Sachs, of fraudulently-generated AIG-issued credit default swap payments, and vigorously

pursue the recovery of such payments on behalf of the U.S. taxpayer. Finally, should this or any subsequent investigation uncover criminal misconduct, we implore you to refer those matters to the Department of Justice for the appropriate prosecution.

Again, we appreciate the enforcement efforts of the SEC, and look forward to monitoring the progression of this landmark case.

Sincerely,

Peter DeFazio,  
Members of Congress

Elijah Cummings and

Peter Welch