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A Glare on Goldman, From U.S. and Beyond

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Calls for increased scrutiny of Goldman Sachs emerged on Sunday as two congressmen pressed for investigations into possible taxpayer losses generated in securities sold by the firm, and the British prime minister also asked his nation's securities regulator to investigate the Wall Street powerhouse because of losses suffered by a major British bank.

The German government, too, said it was considering taking legal action against Goldman because of a German bank's losses, a spokesman said.

A civil lawsuit filed against Goldman last Friday contained damaging allegations whose reverberations are just beginning to be felt. In the lawsuit, the Securities and Exchange Commission contends that Goldman misled investors who bought a mortgage-related instrument known as Abacus 2007-AC1 by not disclosing that the security was devised to fail.

Goldman has denied the allegations and says it will fight them.

The Abacus transaction cited in the S.E.C. case is just one of 25 such securities worth $10.9 billion that Goldman issued during the mortgage mania. Investors in the Abacus 2007-AC1 security lost $1 billion, regulators said.

The beleaguered American International Group also lost money in its dealings with Goldman on other Abacus securities. A.I.G. insured $6 billion of Abacus securities issued by Goldman; since the government rescued the insurer in September 2008, it has posted $2 billion in losses on these securities. A.I.G. received a taxpayer commitment of $180 billion to keep it from failing and causing havoc in markets worldwide.

Because the government has committed so much money to A.I.G., Representatives Elijah E. Cummings, Democrat of Maryland, and Peter DeFazio, Democrat of Oregon, are asking the S.E.C. to investigate all the Abacus deals issued by Goldman, and especially those insured by A.I.G.

The congressmen want regulators to determine whether fraudulent conduct by the investment firm contributed to billions of dollars in losses. If such conduct is found, the congressmen are urging the S.E.C. to recoup payments made by A.I.G. to Goldman.

Mr. Cummings and Mr. DeFazio are also asking the S.E.C. to refer matters that appear to involve criminal misconduct on the part of Goldman Sachs to the Justice Department.

“We request that S.E.C., 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 A.I.G.-issued credit default swap payments, and vigorously pursue the recovery of such payments on behalf of the U.S. taxpayer,” the representatives wrote to Mary L. Schapiro, the head of the commission, in a letter dated April 19. Mr. Cummings and Mr. DeFazio are still gathering signatures from other members of Congress to add to their letter, so it has not yet been sent.

A.I.G. collapsed in the fall of 2008 after the mortgage market plummeted. The company was imperiled when it was unable to supply billions of dollars in collateral to its trading partners as required under the insurance it had written on complex mortgage-related securities like Abacus. Goldman Sachs was one of its biggest trading partners.

The Abacus securities insured by A.I.G. were not among those that the Federal Reserve unwound in late 2008, paying the insurer’s trading partners 100 cents on the dollar for what they were owed.

A.I.G.’s participation was crucial to the success of many Abacus securities issued by Goldman Sachs. In the Abacus deals, a type of derivative known as credit default swaps were linked to mortgage bonds; those firms underwriting the swaps, like A.I.G., were essentially insuring that the mortgage bonds would perform well. When they did not, the swaps created enormous losses for those who sold them.

“We’ve got to look into every aspect of these deals and figure out exactly what went wrong,” Mr. Cummings, a senior member of the House Committee on Oversight and Government Reform, said in an interview on Sunday.

“And if people were participating in any type of fraudulent activity we need to expose it and they need to be brought to justice and we need to get our money back.”

Anger over Goldman’s dealings also surfaced Sunday in Britain, where Prime Minister Gordon Brown accused the firm of “moral bankruptcy.” He said that British regulators should investigate, and that he believed banks themselves would be considering legal action, without specifying which banks.

“We need a global financial levy for the banks,” he said in a television interview Sunday. “We have to quash remuneration packages such as Goldman Sachs’s. I cannot allow this to continue.”

The Royal Bank of Scotland and IKB Deutsche Industriebank of Germany lost just less than $1 billion after buying the Abacus investment vehicle constructed by Goldman. The Royal Bank of Scotland inherited a loss of $841 million after taking over the Dutch bank ABN Amro.

During the financial crisis, each bank was saved from collapse by their home governments. Together, Germany and Britain pumped about $83 billion into the Royal Bank of Scotland and IKB. Because of those bailouts, and with anti-banker sentiment on the rise as Mr. Brown and Chancellor Angela Merkel of Germany face political challenges, the complaint against Goldman will most likely serve as fodder not only for lawsuits but for proponents of tougher financial regulation.

As Britain prepares for a national vote on May 6 and the German state of North Rhine-Westphalia follows three days later with local elections that will have national implications, politicians in both countries were quick to join the chorus of condemnation against Goldman.

The German government has asked the S.E.C. for more information regarding IKB’s part in the scandal and might take legal steps, a spokesman said.

Legal experts said the potential liability of Goldman for losses suffered in the Abacus investments was an issue of debate.

Marcel Kahan, a law professor at New York University, said he suspected that much of the story had not yet been told concerning the strength of the S.E.C. charge. But based on what he has read, he said, the allegations against Goldman look bad but might not be illegal.

For instance, he said that those who lost money in the deal were sophisticated investors who knew what was in the financial instruments and could check them out for themselves. As such, Goldman may argue that there was no material misstatement or omission in the documents and statements that it provided investors.

Peter J. Henning, a law professor at Wayne State University and a former S.E.C. attorney, said he too believed that Goldman might mount a “blame the victim defense.”

“To fight the case, they have to focus on the investors,” he said. “These were very sophisticated investors who weren’t fooled by these transactions.”

Adam Pritchard, a law professor at the University of Michigan who teaches securities law, said the S.E.C.’s inclusion of IKB, the German bank, was important. “I think the S.E.C. has a pretty good argument here,” he wrote. “Conflicts are presumed, so the fact that Goldman had clients that were betting against these C.D.O.’s is scarcely material. The facts alleged here are different. It is one thing to know that there are others betting against you; it is quite another to know that the people betting against you are selecting the bets.”

A spokeswoman for Britain’s financial regulator, the Financial Services Authority, declined to say whether it would start its own investigation into Goldman. It is in contact with the S.E.C. regarding its investigation, she said.

Whether the British regulator begins its own investigation would depend on whether the agency came to believe any of the suspect activity took place in Britain or had an effect there.

Graham Bowley and Andrew Martin contributed reporting.