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RESEARCH ARTICLE

The Goldman Sachs Fraud Case and How it Can be Prevented

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ABSTRACT

A new wave of lawsuits is looming in the aftermath of the financial crisis. This study provides an "objective" examination of legal grounds in securitization instances. It begins by identifying the relevant information on the Goldman Sachs case. Secondly, it focuses on essential legal culpability factors in securitization litigation for fraudulent or negligent representations and also, preventive measures that can be considered to avoid a re-occurrence. The present wave of lawsuits, it is argued, has implications for the financial industry's long-term future.

Keywords: *Goldman Sachs; Fraud Case; Financial Crisis; Fraudulent*

Introduction

In recent years, advances in modern technology such as the internet and mobile computers have resulted in a surge in financial fraud. Financial fraud has far-reaching implications in both the banking business and everyday life. Fraud can erode consumer confidence, destabilize economies, and raise people's living costs. Traditional approaches to fraud detection relied on wasteful and unreliable manual processes such as auditing due to the complexities associated with the problem. Fraudsters' strategies are always evolving, and detection methods must evolve as well. Credit card approval, bankruptcy prediction, and stock market research are just a few examples of where computer intelligence (CI) and data mining have been demonstrated to be effective in an organization. As our reliance on the internet and digital gadgets for business and personal purposes grow, so are the chances for criminals looking to steal information for monetary gain. Cyber crooks and fraudsters are growing more sophisticated in their attempts to persuade consumers to click suspicious links, download email attachments, or "connect" on social media, all of which are common entry points for obtaining sensitive information. Fraudsters may impersonate reputable businesses, such as Goldman Sachs, and construct fake websites, emails, or phone calls to request money. These scams are complicated as the offenders frequently use real employee names and duplicate proprietary documentation.

The main focus of this study is on the 'Abacus deal', a Goldman Sachs controversy involving the unethical sale of corrupt collateralized debt obligations (CDOs) to the German bank IKB Deutsche Industriebank (IKB). CDOs were a big part of the US subprime mortgage crisis, and Abacus is a good example of Wall Street's excesses. CDOs were used on mortgage-backed securities to give investors with greater risk diversification. In short, the Securities and Exchange Commission (SEC) had accused Goldman of withholding critical information that IKB and other investors buying the Abacus CDO might have wished to know, particularly the role performed by Paulson's hedge fund, a direct competitor of Goldman. In choosing the precise stocks in the transaction, IKB competed with a competitor. As a result, Paulson reaped billions of dollars in profits, while IKB became one of the first financial institutions to need bailout money during the global financial crisis (McGee, 2010).

The US Securities and Exchange Commission (SEC) announced on April 16, 2010, that it would sue Goldman Sachs for securities fraud in the marketing of asset-backed instruments to investors, it sent shockwaves across financial markets, and Goldman Sachs CEO Lloyd Blankfein had to appear before the US Senate Permanent Subcommittee on Investigations on the firm's procedures and behaviour in the run-up to the crisis a few days later, on April 27 (Guerrera & Kirchgaessner, Goldman's Woes Mount, 2010). The Committee had already released some contentious information about rating companies' practices since 2007, and a lot of time has passed. As a whole, the financial crisis is ended. The large bailouts of City and Wall Street titans – and the financial services industry as a whole – kept the financial system from collapsing. A hard landing was avoided thanks to additional stimulus measures. The days of financial calamity headlines are almost over. Sovereign defaults, debt reduction, labour market flexibility, and entitlement reform are all being discussed now.

Goldman Sachs bills itself as a major global investment banking, securities, and investment management organization that offers a broad variety of services globally (Story & Morgenson, 2010). The most successful firm on Wall Street Goldman Sachs' legal classification was changed from investment bank to bank holding company by the New York Federal Reserve in 2008, allowing it to qualify for a government bailout. "Government Sachs" refers to the wide network of top government officials who previously worked for Goldman Sachs, notably former Treasury Secretary Henry Paulson. The conflicts involving the American multinational investment bank Goldman Sachs are referred to as the Goldman Sachs scandals. The bank and its operations have sparked widespread debate and legal difficulties around the world, and suspicion about its role in global banking and politics has been rampant. However, not everything has been replaced with renewed conversation. Since the credit markets collapsed in 2007, two questions have lingered: "What went wrong?" and "How can we avoid similar disasters?" There are two methods for answering both questions. The "aloof" approach would address the first question by discussing global imbalances, currency rates, consumption and debt, and monetary policy; and the second question by discussing systemic oversight, orderly liquidation, or proprietary trading. When it comes to the first question, the "passionate" approach would emphasize greed, warped incentives, and irresponsibility; and when it comes to the second, it would centre on securities litigation. Both techniques are complementary rather than incompatible. The property boom was fueled by global imbalances and cheap credit; irresponsible behaviour and risk-taking infected the whole banking sector with toxic mortgages. New and improved supervision is required, but securities litigation and lawsuits can help to bring about much-needed market discipline. If public outrage was not fueled by proof of wrongdoing found in US Senate hearings, even current regulatory reform would lose steam (the functions of a systemic regulator are hardly compelling as a topic of conversation on social occasions.

However, the current blame game is important: for regulatory change, the economy, and society as a whole; everyone is concerned about market trust. In this scenario, once the press has dutifully reproduced these events, igniting public debate, it is likely important to balance that impassioned attitude with some aloofness when it comes to some of the crucial legal factors that need to be considered in the current SEC and Goldman Sachs case. How could a renowned worldwide corporation founded over 150 years ago be involved in such a scandal? A discussion of the persons involved, as well as the alleged misappropriation, may help to clarify the situation.

The Organizations

Goldman Sachs

Marcus Goldman established Goldman Sachs & Co (the firm) in 1869. With revenues over $6 billion, the company that began by selling commercial paper has grown to become one of the world's largest investment banks. The investment bank joined the New York Stock Exchange in 1896, and by 1898, the firm's capital had grown to almost $48 million (roughly $48 million today). Investment Banking, Institutional Client Services, Investing & Lending, and Investment Management are the bank's four business sectors today, and it has a market capitalization of $71.76 billion (as of March 2019). The firm has offices in all major financial areas throughout the world, with its headquarters in New York. The company is presently administered by an 11-member board of directors led by the chairman and CEO. An executive leadership team and a management committee assist the board.

1MDB

1Malaysia Development Berhad (IMDB) was a Malaysian government-owned and controlled strategic investment and development organization. Terengganu Investment Authority, or TIA, the state's sovereign wealth fund, was founded in 2009 after the Malaysian government acquired federal control of it. The goal of this fund was to ensure Terengganu citizens' economic well-being while ensuring long-term sustainable development. Low Taek Jho, or Jho Low, a Malaysian native of 27 years old, convinced Malaysian Prime Minister (and Finance Minister) Najib Razak to establish the 1MDB sovereign wealth fund (the fund). Low had previously assisted Malaysia's government in obtaining funds from the Middle East. From their time together at an international boarding school, he was also a friend of Razak's stepson. He made acquaintances with the children of famous Jordanian and Kuwaiti families throughout his undergraduate years. Low was not employed by the Malaysian government, but he did serve as an advisor to the fund. The fund was established to pursue investment and development projects for Malaysia's and its people's economic benefit, with debt and other bond financing serving as the primary source of funding. Energy, tourism, agribusiness, and property development were the focal points of its development programs. International Petroleum Investment Company (IPIC), an Abu Dhabi sovereign wealth fund, was a major contributor to the fund (1MDB).

Global Expansion and the Financial Crisis

Since 1998, the US financial services industry has witnessed unprecedented geographic expansion, with consumers traditionally served by local financial institutions now being targeted at a worldwide level. Following the financial crisis of 2007-2009, investment banks looked into a variety of investment strategies to restore shareholder wealth and consumer trust. Investing substantially in emerging markets and other overseas investment opportunities was common in several of these strategies. This approach was implemented, and the company announced that its corporate strategy was to chase global GDP. The company believed that to expand, it needed to become global and maintain a certain level of yearly revenue growth for the foreseeable future. Due to recent deregulation in its own countries, the Asian market gave such growth potential. Tim Leissner and Robert Ng, two seasoned investment bankers, were given the task of developing the Asian market and attaining the needed revenue growth. After working at previous firms focused on the Malaysian market, Leissner joined the firm in 1998. He quickly ascended through the ranks of the firm and was elevated to partner in 2006, earning him one of the largest salary packages in the firm, which mirrored the volume of business he brought in.

Role in the Financial Crisis of 2007–2008

Goldman has been under fire, particularly in the aftermath of the financial crisis of 2007–2008, when some said it misled its investors and benefitted from the collapse of the mortgage market. According to The New York Times (Sorkin & Craig, 2011), the period saw inquiries from the US Congress and the US Department of Justice, as well as a lawsuit from the US Securities and Exchange Commission, which culminated in Goldman paying $550 million settlement According to journalists McLean and Nocera, Goldman Sachs has been "excoriated by the press and the people (McLean & Nocera, 2011)—despite its non-retail nature, which would ordinarily keep it out of the spotlight.

The $12.9 billion in AIG counterparty payments provided by the AIG bailout, the $10 billion in TARP money it received from the government (though the firm paid this back to the government), and a record $11.4 billion set aside for employee bonuses in the first half of 2009 provided visibility and antagonism. (Bowley, 2009). While all of the investment firms were chastised by congressional probes, Goldman Sachs faced "a single hearing before the Senate Permanent Subcommittee on Investigations" and a damning report. Matt Taibbi described Goldman Sachs as a "great vampire squid" sucking money instead of blood in a widely circulated Rolling Stone article, alleging that the bank orchestrated "every major market manipulation since the great depression from the 1929 stock market crash to the current financial crisis."

Goldman Sachs has vehemently denied any wrongdoing. It has argued that its customers were aware of its wagers against the mortgage-related security products it was selling to them and that it was just a market maker who used the bets to hedge against losses. The firm also promised a "complete evaluation of our business principles and processes", increased transparency, and improved client interactions. Goldman has also been accused of a slew of other wrongdoings, including a general drop in ethical standards, (Hall, 2012). Working with dictatorial regimes, cosy relationships with the US federal government through a "revolving door" of former employees, (Creswell, 2008) insider trading by some of its traders, and driving up commodity prices through futures speculation. (Kocieniewski, 2013) In both of these cases, Goldman has denied any misconduct.

Senate Report on the Causes of the Financial Crisis of 2007–2008

The Permanent Subcommittee on Investigations of the United States Senate released a 635-page report titled Wall Street and the Financial Crisis: Anatomy of a Financial Collapse on April 14, 2011, outlining some of the reasons for the financial crisis. According to the research, Goldman Sachs may have misled investors and benefitted from the mortgage market's collapse at their expense of them. The study was forwarded to the US Department of Justice to see if Goldman executives had broken the law, (Henning, 2011) and two months later, the Manhattan district attorney issued a subpoena for relevant material on probable securities fraud, (Leonard, 2011) However, on August 9, the Justice Department announced that it will not be filing charges against Goldman Sachs or its employees for trades conducted during the financial crisis.

Corruption in Action: The Abacus Deal

The Abacus deal is predominantly a fascinating and eye-opening example of corruption in action. When the financial markets crashed in 2008, Goldman Sachs was able to not only survive but even profit during the crisis. As a result, the ethical implications of their business activities have sparked public outrage. A few years ago, using the name of Goldman Sachs, one of Wall Street's most recognizable businesses, in a paper exposing corruption would have been unimaginable. At least, that was the case until the summer of 2010, when the investment bank paid a $550 million punishment, the highest penalty the Securities and Exchange Commission (SEC, 2013) had ever issued on a Wall Street corporation. In its action, the SEC claimed that Goldman Sachs had made "materially false statements and omissions regarding the CDO that Goldman Sachs had designed and marketed to the German bank IKB" (SEC, 2010). The Abacus deal is also a symbol of Wall Street excesses during the subprime crisis, according to SEC rhetoric, in the sense that the bribe 'contributed to the recent financial crisis by exacerbating losses related to the property market decline in the United States.

Goldman neglected to declare a conflict of interest in the mortgage investments it sold during a collapse in the housing market. IKB requested that an outsider – an independent third-party with experience and skills in the US market – put together and secure the contract during this contentious transaction. This third party was labelled as management, a credit-risk analysis firm, and its identity was provided in the discussion with IKB. The SEC's evidence, on the other hand, suggests that Abacus was put together by a hedge fund manager, John Paulson, one of Goldman's institutional clients and IKB's direct competitor, during the six months Goldman executives spent putting the CDO together. As a result, the SEC claims that Goldman consciously misquoted in the disclosure statement, that the reference holdings had been selected by ACA without revealing that Paulson, a hedge fund with financial interests in the transaction directly adverse to IKB, ACA Capital, and ABN, played a significant role in the portfolio selection process.

In other words, Goldman was charged with promoting a doomed product while Paulson was betting against it. In conclusion, gambler Paulson and croupier Goldman planned to rig the game by weighing the roulette against fellow gambler IKB (Cohan, 2011). The Goldman Sachs traders' dialogue and communication began to reflect a Machiavellian manipulation of artefacts and acronyms in which nothing was as it seemed. Goldman openly admitted that the lawsuit's core premise was correct, but did not admit guilt. The fact that the reference portfolio was "chosen by" ACA Management LLC without disclosing the role detrimental to CDO investors was a mistake made by Goldman marketing materials. Goldman apologizes for not including that information in the marketing materials. (SEC, 2010).

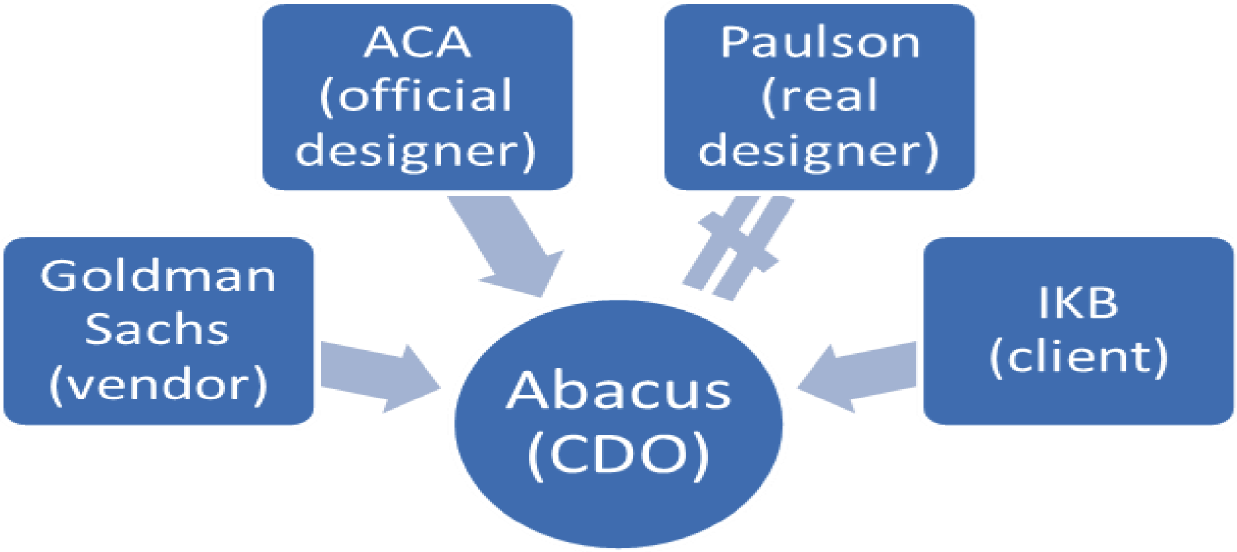

Figure 1 The making of the corrupt CDO.

The Abacus case gives a good example of legal corruption in action. Despite being highly symbolic of Wall Street abuses that led to the subprime crisis, Abacus remains the only law enforcement lawsuit against Goldman. While Goldman paid $550 million to resolve allegations in 2010, the Securities and Exchange Commission (SEC) closed an investigation into a $1.3 billion subprime mortgage deal in 2012. As a result, the Justice Department chose not to pursue additional investigations into Goldman Sachs' behaviour during the financial crisis, concluding that "the standard of proof to establish a criminal prosecution could not be reached, based on the law and facts as they exist at this time" *(Protess & Ahmed, 2012)*. The final word falls to a Goldman Sachs representative, who sums up the situation as follows, we are delighted that this situation is behind us,' says a Goldman Sachs spokesman, bringing the story to a close.

The Unraveling

The audit firms' brief tenures may have indicated possible issues with the fund and its management team. EY was sacked in 2010 before completing an audit report because it raised concerns about certain investments. KPMG audited the fund from 2010 to 2012 but was sacked after asking for information on Cayman Islands holdings. Deloitte continued the audit until 2016 when the US Justice Department launched a lawsuit. In 2015, a powerful British journalist received 227,000 leaked documents revealing the fund's possible vulnerabilities. This data was then posted on a connected website. When he acted, the Malaysian anti-corruption agency (MACC) had begun investigating the claims and was going to issue an arrest warrant for the prime minister. He fired the attorney general, the deputy prime minister and fund critic, and four other officials who had expressed worries about the charges. Four MACC officials were arrested when the offices were raided. In the United States, Singapore, and Switzerland, the government has likewise declined to cooperate with investigations. In 2016, the newly appointed attorney general cleared Prime Minister Justin Trudeau of all wrongdoings, reporting that the claims had been investigated and that all parties had been cleared of any illegal activity. Meanwhile, a former prime minister continued to speak out about the claims, thinking that he was the only one who could intervene. He declared his candidacy for Prime Minister, and in a historic moment in May 2018, his opposition party was elected, and he took the reins of chevalier. He launched a probe into 1MDB right after, including engaging PwC to audit the fund's accounts.

Six homes of the now-former Prime Minister Razak and his wife were searched by police just days after the election. They seized 35 bags of cash in 26 different currencies, 25 bags of gold, 272 Hermes purses, 423 Hermes watches, 1,400 necklaces, 2,200 rings, 1600 brooches, 14 tiaras, and other things totalling $273 million. The former prime minister was detained and charged with money laundering, breach of trust, corruption, and power abuse. Mansor, his wife, was also detained and charged with money laundering and tax evasion on 17 counts. They both entered not guilty pleas. In February 2016, the FBI launched its investigation into 1MDB, focusing on Leissner's relationship with Malaysia's previous prime minister. According to the inquiry, the bank's Asian operations were very focused on closing deals, even putting them ahead of the effective operation of its compliance procedures at times. Between 2009 and 2014, the US Department of Justice estimates that $4.5 billion was looted from 1MDB, including some of the cash raised. Following the conclusion of the inquiry, claims were made and charges were filed against the firm and specific personnel.

The Allegations and other Charges

Two former business bankers (Leissner and Ng) and a Malaysian financier (Low) were charged in August 2018 by US prosecutors for their roles in the IMDB plot. In November 2018, one of the bankers, Leissner, agreed to forfeit $43.7 million after pleading guilty to money laundering and violating the Foreign Corrupt Practices Act (FCPA). He acknowledged bribing officials to acquire the bond agreements, and that he and others structured the fundraisers as debt offerings to maximize revenues. He also revealed that he and a family received more than $200 million in revenues from 1MDB bonds. Low and Ng were also charged with conspiring to launder money and breaking the FCPA's anti-bribery provisions in a three-count indictment. In January 2019, Ng was arrested in Malaysia and extradited to the United States to face the allegations. On all counts, he has pleaded not guilty. Low's whereabouts are unknown. A third unnamed business executive, the co-head of the Asian investment banking operations, was also accused of endorsing Leissner and Ng's alleged acts. The company promptly suspended him. International Petroleum Investment Company (IPIC) and its subsidiary, Aabar Investments, sued the bank in November 2018 for its role in the 1MDB scheme. They claimed that the company bribed officials. In December 2018, Malaysian prosecutors charged three of the company's subsidiaries - Singapore, Malaysia, and Hong Kong - with defrauding investors by making false representations and omitting essential details about the bond issuance. Malaysia is suing the company for up to $7.5 billion in damages. The business, on the other hand, disputes all charges and accuses former Malaysian government officials and 1MDB of lying to it about how the proceeds from bond sales will be used.

Aziz was arrested and accused of money laundering five times in Malaysia in June 2019. He was granted bail and released pending his trial. In 2018, his company, Red Granite Pictures, agreed to pay the US Justice Department $60 million to settle claims over funding. Furthermore, in May 2018, 1MDB was declared insolvent after failing to pay its debt obligations. For its role in the multibillion-dollar financial swindle involving (1MDB) bonds, the business has pledged to pay $241 million in compensation. However, given the cash plundered from the fund, the current

Malaysian Prime Minister has regarded the amount as inconsequential. In September 2019, a formal hearing will be held. For the time being, the firm's immediate destiny is in the hands of the court.

Table 1: Key Participants, Roles, and Current Status

Name	Role	Current Status
Goldman Sachs	*Firm*	Facing lawsuits from multiple parties
Jim Leissner	*Banker*	Plead guilty to money laundering and other charges
Robert Ng	Leissner's Assistant	Arrested and awaiting trial on money laundering charges
Unidentified co-conspirator	Co-head of Asian investment banking	Suspended by the firm
1 MDB	*Fund*	Insolvent
Jho Low	*Fund Insolvent*	Charged with money laundering but whereabouts unknown
Najib Razak	Former Malaysian prime minister and finance minister	Charged with money laundering, breach of trust, corruption, and abuse of power. Under-going first court trial
Rosmah Mansor	Razak's wife	Charged with money laundering and tax evasion. Released on bail pending trial
Riza Aziz	Razak's stepson	Charged with five counts of money laundering. Released on bail pending trial.

The Bailouts

The US Treasury paid Goldman Sachs $10 billion in exchange for its shares on October 28, 2008, as one of the six large banks that received funds from the Troubled Asset Relief Program (TARP) to help unfreeze credit markets. This bailout was facilitated by the Troubled Assets Relief Program's capital acquisition section (TARP). Treasury spent $3.5 billion more on equities than they were worth, according to the TARP oversight committee. At the same time, Warren Buffett's Berkshire Hathaway purchased $5 billion in Goldman Sachs stock for a lower price than the US government. Looking back on 2009, it is impossible to tell what would have occurred to the financial sector absent concerted government action around the world, Goldman Sachs wrote in a letter to shareholders 2009. Goldman Sachs appreciates the critical role that governments played, and we acknowledge that it benefited the company and the stockholders. In February 2009, Goldman Sachs' Chief Financial Officer David Viniar stated that the bank was ready to repay the TARP funds due to the constraints on executive compensation that came with it. Goldman Sachs purchased its shares from the government for $10.04 billion in June 2009. It also paid an additional $1.4 billion to the government to repay warrants and cover dividends. The $10 billion TARP money that Goldman Sachs received in June 2009 was refunded. As the financial crisis reached its apex in September 2008, Goldman Sachs transitioned from an investment bank to a bank holding company.

Benefits from the Government Bailout of American International Group (AIG)

During the financial crisis, the government loaned the American International Group $180 billion. The funds were utilized to reimburse security-lending customers and to pay counterparties under credit insurance contracts obtained from AIG. However, due to the scale and nature of the payouts, there was much debate in the media and among lawmakers about whether banks, including Goldman Sachs, should have been forced to incur bigger losses and should not have been paid in full via government loans to AIG. In March 2009, New York Attorney General Andrew Cuomo indicated that he was looking into whether AIG's trading counterparties obtained government funds inappropriately (Cuomo, 2009). Goldman Sachs was a big winner from the government's AIG bailout, and it got a lot of money following the receipt of government funding, and AIG's unwinded credit default swap (CDS) contracts (Mandel, 2009).

Apologies

At a presentation in November 2009, Goldman chairman and CEO Lloyd Blankfein said, "We took part in clearly wrong activities that we now regret. We sincerely regret the inconvenience." Blankfein did not explain which "things were wrong," according to published accounts.

How another Financial Crisis can be Prevented?

To avoid a repeat of the financial crisis of 2007-2009, current banking regulations must be changed. In addressing this, two issues must be addressed

1. The issue that rocked the world was insolvency, not liquidity, as US and European banks must understand this.
2. As a result, present bank capital criteria are entirely inappropriate and need to be adjusted.

Because of counterproductive liquidity-requirement policies originating from the mischaracterization of the crisis, hundreds of billions of dollars are simply being wasted, languishing as liquid assets, as a result, Thakor, a member of the European Corporate Governance Institute, suggests specific pre-and post-crisis steps to replace or enhance the Third Basel Accord, or Basel III, a regulatory framework for banks:

1. increase capital requirements for shadow banks and depository institutions and make them countercyclical.
2. Eliminate liquidity requirements.
3. Improve consumer literacy and restrict consumer leverage.
4. Create a Chapter 11 bankruptcy for banks.
5. Design a more integrated regulatory structure.
6. Focus on bank governance and culture.

In addition, in response to these concerns:

1. Resolve a financial crisis temporarily by setting dividend limitations and giving government capital support, both of which dilute owners.
2. Increase the penalties for CEOs of failed institutions.

Some of these changes have yet to be implemented due to three factors: a lingering misunderstanding that this was a liquidity crisis; a lack of political will to address consumer financial literacy issues (which could place some of the blame for the crisis on uninformed consumers making poor personal financial decisions); and a lack of appreciation for the role of soft issues such as bank culture, among others.

Banks' potential growth is limited by liquidity regulations. The requirement that banks hold a certain percentage of tangible assets, such as cash and Treasury bonds, prevents them from lending to more businesses and individuals. Main Street suffers as a result, according to Thakor. "Small businesses are denied some of the credit that would otherwise flow to them to expand their operations, and low- and middle-income borrowers—even those who want to borrow responsibly, do not have enough access to credit."

"Bank shareholders, paradoxically, also suffer. Research shows that higher capital levels lead to higher bank shareholder value, whereas higher liquidity levels simply prevent banks from doing what they're supposed to do: taking in deposits and lending them out to help the economy grow. Consumers are also involved in the causes of crises... as well as potential solutions. Between 1980 and 1999, US household consumption surged by about 50%, and Americans borrowed at a higher rate than their home prices increased, Consumers may have miscalculated the financial strain generated by taking out adjustable-rate mortgages with low teaser rates that would arise in the future. if consumers are more informed, they will make better choices.

10 Years Later

As the 10th anniversary of Lehman Brothers' bankruptcy approaches, Thakor says that banking also requires a Chapter 11 bankruptcy and reorganization process. Furthermore, authorities must be willing to let some banks fail, or, in other words, allow Darwinian evolution to take its course. Strong banks will thrive, while others will periodically collapse. This cycle is vital for a healthy and vigorous financial system.

The Dodd-Frank Act consolidates and coordinates the many prongs of the financial system: commercial banks, investment banks, insurance firms, securities broker-dealers, and so on, in addition to expediting the liquidation process. The Dodd-Frank Act also consolidates and coordinates the many prongs of the financial system, such as commercial banks, investment banks, insurance firms, securities broker-dealers, and so on. However, Thakor believes Dodd-Frank falls short. More needs to be done to successfully deal with future insolvency-driven strains in the repo market.

When it comes to tackling a culture shift, previous research shows how a vague influence may be made apparent if authorities restricted interbank competition, increased capital requirements, and lowered the likelihood of rescues. With such improvements, creating a safety-oriented culture is expected to spread throughout banking, starting with the big banks. When a crisis arises, the government can help by backing up a cash infusion with a second condition aimed at shareholders, government capital injection should be followed by dividend freezes at the affected banks to allow these firms' capital levels to be rebuilt.

Over the last decade, one common post-crisis cry has been over executives who have dodged punishment. Thakor advocated two penalties: clawing back pay packages and imposing fines for "reckless" risk-taking but not to the point of making banks overly risk-averse. "All of this will necessitate collaboration not only among US financial service industry authorities but also between European and US regulators.

Conclusion

The conclusions of previous articles and books on the Goldman Sachs case are incorporated into the report. It accomplishes so by linking the misconduct to 1MDB's borrowings, an international money-laundering and bribery network, and the company's inadequate internal controls. It also adds to past research by emphasizing banks' failure to detect money laundering, as well as the inadequacy of monitoring and enforcement authorities to combat corruption. The report also has the importance of identifying the lessons that may be gained from combating corruption on such a large scale.

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