

Goldman Sachs – 1MDB Fraud Scandal is a Potential Optical Setback for a Firm Striving to Improve its Post 2008 Image

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Last week, federal prosecutors brought charges against two parties believed to be at the helm of a massive fraud scheme involving Goldman Sachs and 1MDB, a Malaysian sovereign-wealth fund. Prosecutors alleged that the charged parties, one a Goldman Sachs banker and the other a Malaysian businessman/financier, [embezzled billions from the fund](#) – the former helping the latter steal funds for lavish, personal use via a bribe and money laundering scheme that began not long after the financial crisis. The same day, federal prosecutors announced that the former head of Goldman’s Southeast Asia banking division, Tim Leissner, plead guilty to his participation in the scheme. Overall, the scheme netted \$600 million in fees for Goldman over three bond offerings, facilitated by bribes and pushbacks from the Goldman Sachs bankers and paid out to the private bank accounts of various co-conspirators.

Malaysia’s former Prime Minister and the fund’s overseer, Najib Razak, [lost his reelection](#) as a result of the scandal surrounding its misappropriation. When authorities raided his home, they discovered \$266 million worth of luxury items, tens of millions of which took the form of jewelry the former Prime Minister purchased for his wife. Tim Leissner, the Senior Goldman banker who plead guilty, has forfeited nearly \$44 million he earned from his role in the scheme as part of his plea deal. The starkest and perhaps strangest beneficiary of the scheme, however, was the aforementioned Malaysian businessman/financier and alleged mastermind behind the scheme, Jho Low.

Leissner had on multiple occasions [attempted to engage in other business dealings](#) with Jho Low through his capacity as a partner at Goldman Sachs. His efforts, however, were repeatedly rebuffed by Goldman’s compliance group, which harbored serious doubts and concerns about Low, the source of his wealth, and his spending habits. Low was a renowned partier and used the money he stole from the fund to support his over the top lifestyle, purchasing high end real-estate, fine art, gifts for Hollywood celebrities, and, perhaps ironically, poured some of that money into the production of Martin Scorsese’s 2013 *The Wolf of Wall Street*, a film about, ironically, financial fraud.

Although Goldman Sachs has presented the scandal as a consequence of the actions of rogue players who do not represent the interests or practices of the firm, it may nonetheless damage the image of transparency and responsibility that Goldman has been pursuing since the financial crisis. The apparent intimate relationship between Leissner and Jho Low as well as concerns about a prevailing corporate culture that encourages bankers to prioritize deal-making over honest business practices may warrant further consideration and investigation on the firm’s part, especially as the scandal continues to unfold and additional parties and infractions come to light.

