Ex-Goldman Banker and Fed Employee Will Plead Guilty in Document Leak

By BEN PROTESS and PETER EAVISOCT. 26, 2015
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A former Goldman Sachs banker suspected of taking confidential documents from a source inside the government has agreed to plead guilty, a rare criminal action on Wall Street, where Goldman itself is facing an array of regulatory penalties over the leak.

The banker and his source, who at the time of the leak was an employee at the Federal Reserve Bank of New York, one of Goldman's regulators, will accept a plea deal from federal prosecutors that could send them to prison for up to a year, according to lawyers briefed on the matter who spoke on the condition of anonymity. The men, both fired after the leak, also may face lifetime bars from the banking industry.

In a statement, a Goldman spokesman emphasized that the banker worked for the firm for less than three months, and that the bank "immediately began an investigation and notified the appropriate regulators" once it detected the leak. Nonetheless, the bank is expected to pay a significant penalty.

Under a tentative deal with New York State's financial regulator, the lawyers said, Goldman would pay a fine of $50 million and face new restrictions on how it handled delicate regulatory information. The settlement with the Department of Financial Services would also force Goldman to take the rare step of acknowledging that it failed to adequately supervise the former banker — thrusting the bank back into the spotlight just as it was beginning to overcome a popular image as a firm willing to cut corners to turn a profit.

For Goldman and the New York Fed, the case is likely to give new life to an embarrassing episode that illustrated the blurred lines between their institutions. Perhaps more than any other bank, Goldman swaps employees with the government, earning it the nickname "Government Sachs."

While the so-called revolving door is common on Wall Street, the investigation into the Goldman banker and the New York Fed regulator exposes the perils of the job hopping, affirming the public's concerns that regulators and bankers, when intermingled, occasionally form unholy alliances.

The leak, which was first reported by The New York Times last year, was arguably the product of the revolving door.

The Goldman banker, Rohit Bansal, previously spent seven years as a regulator at the New York Fed. After Mr. Bansal joined Goldman in July 2014, his boss assigned him to advise one of the banks he previously regulated, a midsize bank in New York, the lawyers said. Soon after, he received government information about that bank from Jason Gross, a former colleague who was still working at the New York Fed.

That leak, which violated a cardinal rule of the regulatory world, provided Goldman a window into the Fed's private insights about the New York bank and other regulatory matters, the lawyers said. In essence, it gave Goldman a leg up when advising the client.

In the statement, the Goldman spokesman, Michael DuVally, said that the bank had "reviewed our policies regarding hiring from governmental institutions and have implemented changes to make them appropriately robust."

Bruce Barket, a lawyer for Mr. Gross, said, "Although we would have liked to see him escape any criminal liability, we are thankful that the U.S. attorney's office took what we think is a reasonable approach," adding that "misdemeanor pleas in federal court are rare."

Scott Morvillo, a lawyer for Mr. Bansal, declined to comment.

It is rare for a Wall Street banker to face criminal charges. After the financial crisis, not one Wall Street chief executive was charged, and prosecutors have charged bankers or traders in only a handful of investigations.

Mr. Bansal and Mr. Gross are facing misdemeanor charges, following the precedent of past Fed leak cases that were resolved without felony charges. The outcome partly reflects their low-level rank on Wall Street. Mr. Bansal, who was 29 at the time, was an associate at Goldman.

By contrast, a senior colleague who supervised some of his work was a seasoned Wall Street executive. Prosecutors are not expected to charge the senior colleague, Joseph Jiampietro, even though some New York Fed documents were found on his desk, the lawyers briefed on the matter said. Mr. Jiampietro — who at the time was a managing director at Goldman and previously was a senior adviser to Sheila C. Bair, the former chairwoman of the Federal Deposit Insurance Corporation — has told the authorities that he never read the documents and had no clue that they were illegally obtained.

Goldman fired Mr. Jiampietro, though it never concluded that he knew about the leak, instead remarking in a report to regulators that he "failed to properly escalate" the problem.

Peter Chavkin, a lawyer for Mr. Jiampietro, declined to comment.

A spokesman for Preet Bharara, the United States attorney in Manhattan, declined to comment, as did a spokesman for Anthony J. Albanese, the acting head of the New York Department of Financial Services. The Fed declined to comment as well.

In response to the leak, the [Federal Reserve](#) is expected to permanently bar Mr. Bansal from the banking industry, according to a person briefed on the matter. The Fed has barred six people so far this year, a significant increase from the three preceding years.

The leak was not the first incident that raised doubts about the ties between the New York Fed and large banks, particularly Goldman.

In 2013, Carmen Segarra, a former employee of the New York Fed, sued the agency for wrongful dismissal, contending that she had been fired for not changing negative regulatory findings about Goldman. In a victory for the New York Fed, both a federal court and a federal appeals court dismissed her lawsuit.

In the leak case, the New York Fed said it had immediately notified law enforcement agencies after discovering that confidential regulatory information might have been shared at Goldman. And in a statement last year, the Fed said it was "resolute to learn from our experiences."

William C. Dudley, a former Goldman economist who has been the president of the New York Fed since 2009, has also taken several steps to make the agency a more stringent regulator. And, perturbed by a string of scandals at global banks, Mr. Dudley in 2013 unnerved some Wall Street executives when he said he saw "evidence of deep-seated cultural and ethical failures at many large financial institutions."

Goldman has largely steered clear of those scandals that have stung its rivals — like market rigging of currencies and interest rates. The leak case puts it back under the microscope.

While the $50 million fine contemplated in the tentative deal with the New York Department of Financial Services is a small fraction of what Goldman paid in financial crisis-era cases, it is far more than the bank expected to pay after making an opening offer of $3 million, the lawyers briefed on the matter said.

In addition to the fine and the admission that it failed to supervise Mr. Bansal, Goldman will accept a three-year suspension from conducting certain consulting deals with banks in New York State. The prohibition denies Goldman a special privilege — legally accessing confidential information about a banking client with permission from regulators. Goldman has rarely if ever done consulting deals that require such information, one of the lawyers briefed on the matter said, so that aspect of the deal is unlikely to dent the bank's business.

Mr. Bansal joined Goldman in July 2014 from the New York Fed. At the time he left the Fed, Mr. Bansal was the "central point of contact" for certain banks. At Goldman, he joined a unit within the investment bank that advises other financial institutions on mergers and other deals.

That role presented him with a potential conflict of interest.

And although Goldman required him to attend compliance training — at which he was told not to use any material from his previous employer — it was unclear whether the New York Fed prohibited Mr. Bansal from working on behalf of any banks he had previously regulated. Because the New York Fed's rules are somewhat ambiguous, Goldman sent Mr. Bansal to clarify his restrictions with the regulator.

After some discussion, when the restrictions were still unclear, Mr. Bansal filled out a recusal form himself and handed it to Goldman. He mentioned only one bank on the form — the midsize one in New York.

Despite Mr. Bansal's recusing himself, his supervisors encouraged him to work behind the scenes for that New York bank, the lawyers said. Mr. Bansal agreed, though he later told authorities that he felt pressured to do so.

Much of what Mr. Bansal did, the lawyers said, was legal.

But eventually, information from Mr. Gross started to flow.

In one conference call with colleagues in early September 2014, Mr. Bansal shared insights about the midsize bank in New York, the lawyers said. At other points, he emailed Fed material to Mr. Jiampietro. Despite the warning signs, no one flagged the information for Goldman's compliance department.

It was not until Sept. 26, the same day news reports emerged about Ms. Segarra's taping conversations with her supervisors about Goldman, that Goldman executives objected to some of Mr. Bansal's information, the lawyers briefed on the matter said. In a conference call with Scott Romanoff, a partner at Goldman and a well-known Wall Street executive, Mr. Bansal circulated a spreadsheet that contained some seemingly delicate details.

After the call, Mr. Romanoff contacted Mr. Bansal to clarify where he had obtained the information. Mr. Bansal, the lawyers said, acknowledged that it came from the New York Fed. In an email later that day, Mr. Bansal said "sorry" to Mr. Romanoff, who by then had alerted Goldman's compliance department.

That night, a Friday, Goldman alerted the New York Fed.