

From: van Praag, Lucas
Sent: Thursday, July 01, 2010 1:12 PM
To: Walcott, John
Cc: Gordon, Greg
Subject: Letter for publication

Sir:

Your story, "Goldman admits it had a bigger role in AIG deals" (June 30), is seriously misleading.

The article incorrectly states that Goldman Sachs reversed its public position on its dealings with AIG. The fact of the matter is we've always said that we entered into the vast majority of the mortgage positions we had with AIG in our role as a client facilitator. And we have also said that we had \$6 billion in synthetic CDO positions with AIG. These are the so-called "secret bets" to which the story refers.

By definition, synthetic CDO transactions require one party to be long the underlying risk and one party to be short that risk. The author, ignoring this basic fact, erroneously refers to these synthetic CDOs as "proprietary transactions". The nature of these synthetic CDO transactions has been described publicly by Goldman Sachs and widely reported in other media.

The story also suggests Goldman Sachs had inside information about AIG's financial condition, yet provides no evidence. We were managing the risk in our positions prudently. We did not know (and could not know) the scope of the positions AIG had with other counterparties, nor did we know the extent of the worsening condition of AIG Financial Products.

The other "revelation" in the story is that Goldman Sachs could have lost money if AIG had been allowed to fail. We agree that many outcomes were possible but, since the government stepped in and bailed out AIG, there is no way to know what would have happened. As we've repeatedly said, we had no direct economic exposure to AIG, but if the company had been allowed to fail and the financial system had collapsed we, like every other institution, would have been affected by the resulting instability.

We have been very forthcoming about our relationship with AIG. Unfortunately, your erroneous article did nothing to advance a broader understanding of it.

Sincerely

Lucas van Praag
Managing Director
Goldman, Sachs & Co.