

# **TESTIMONY OF FABRICE TOURRE**

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## **BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS APRIL 27, 2010**

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Chairman Levin, Dr. Coburn and Members of the Subcommittee. My name is Fabrice Tourre, and I work at Goldman Sachs International in London. Thank you for the opportunity to appear before the Subcommittee.

I have worked at Goldman Sachs since 2001. Between 2004 and 2007, my job was primarily to make markets for clients. I made markets by connecting clients who wished to take a long exposure to an asset -- meaning they anticipated the value of the asset would rise -- with clients who wished to take a short exposure to an asset -- meaning they anticipated the value of the asset would fall. I was an intermediary between highly sophisticated professional investors -- all of which were institutions. None of my clients were individual, retail investors.

The structured products on which I worked fill an important need for these sophisticated financial institutions. To the average person, the utility of these products may not be obvious. But they permit sophisticated institutions to

customize the exposures they wish to take in order to better manage the credit and market risks of their investment holdings.

Mr. Chairman, as you know, the Securities and Exchange Commission (“SEC”) recently filed a civil suit alleging that I failed to disclose to investors certain material information regarding a transaction that I helped to structure called “ABACUS 07 AC-1”. I deny -- categorically -- the SEC’s allegation. And I will defend myself in court against this false claim.

Since the suit was filed, there have been many questions raised about the 07 AC-1 transaction and my role in it. I appreciate the opportunity to answer those questions, and I want to make a few points absolutely clear.

First, the only two investors in this transaction, ACA and IKB, were institutions with significant resources and extensive experience in the CDO market. ACA was a specialty financial services company that, at year-end 2006, managed 22 CDOs with approximately \$16 billion in assets. IKB, a large German bank, had a separate mortgage group and was an active participant in the CDO market. According to IKB, as of January 2007, they had launched and managed more than \$16.8 billion of CLOs and CDOs and viewed securitizations and CDO investments as an integral part of their business model.

Second, I never told ACA, the portfolio selection agent, that Paulson & Company would be an equity investor in the AC-1 transaction or would take any

long position in the deal. Although I don't recall the exact words that I used, I recall informing ACA that Paulson's fund was expected to buy credit protection on some of the senior tranches of the AC-1 transaction. This necessarily meant that Paulson was expected to take some short exposure in the deal. Moreover, from the early stages of the transaction in January 2007 to its completion several months later, none of the offering documents, including the term sheets, flip book and offering circular, provided to ACA indicated that Paulson's fund would be an equity investor.

If ACA was confused about Paulson's role in the transaction, it had every opportunity to clarify the issue. Representatives of Paulson's fund participated directly in all of my meetings with ACA regarding the transaction. I do not ever recall ACA asking me or Paulson's representatives if Paulson's fund would be an equity investor. Indeed, ACA and Paulson had several discussions about the transaction and at least one meeting without any Goldman Sachs representatives present. Quite frankly, I am surprised that ACA could have believed that the Paulson fund was an equity or long investor in the deal.

Third, the AC-1 transaction was not designed to fail. ACA and IKB were two of the most important clients of my desk. Moreover, the securities referenced in the transaction did not underperform the other securities of that ratings class and vintage. All of the securities of that ratings class and vintage performed poorly

because the subprime mortgage market suffered a broad collapse. Goldman Sachs also had no economic motive to design the AC-1 transaction to fail. Quite the contrary, we held long exposure in the transaction just like ACA and IKB. When the securities referenced in AC-1 declined in value, we lost money too. Goldman Sachs' overall losses in connection with the transaction exceeded \$100 million, including \$83 million with respect to the retained long position.

Finally, ACA selected the portfolio of securities referenced in the transaction -- not Paulson & Company. ACA had sole authority to decide what securities would be referenced in the transaction, and it does not dispute that point. Neither the Paulson fund nor Goldman Sachs could dictate to ACA the securities referenced in the deal. Paulson's fund made suggestions to ACA, as did IKB and Goldman Sachs. And the SEC complaint concedes that ACA rejected most of Paulson's suggestions while accepting others. So, while Paulson, Goldman Sachs and IKB all had input into the reference portfolio for AC-1, ACA ultimately analyzed and approved every security in the deal. Thus, when Goldman Sachs represented to investors that ACA selected the referenced securities, that statement was absolutely correct.

Mr. Chairman, the last week has been challenging for me and my family, as I have been the target of unfounded attacks on my character and motives. I appreciate the opportunity to appear before the Subcommittee to answer these false

charges. I wish to repeat -- I did not mislead IKB or ACA, two of the most sophisticated institutional investors in these products anywhere in the world. I will be pleased to answer any questions that the Subcommittee may have.