

In the spring of 2012, a senior examiner with the Federal Reserve Bank of New York determined that Goldman Sachs had a problem.

Under a Fed mandate, the investment banking behemoth was expected to have a company-wide policy to address conflicts of interest in how its phalanxes of dealmakers handled clients. Although Goldman had a patchwork of policies, the examiner concluded that they fell short of the Fed's requirements.

That finding by the examiner, Carmen Segarra, potentially had serious implications for Goldman, which was already under fire for advising clients on both sides of several multibillion-dollar deals and allegedly putting the bank's own interests above those of its customers. It could have led to closer scrutiny of Goldman by regulators or changes to its business practices.

Before she could formalize her findings, Segarra said, the senior New York Fed official who oversees Goldman pressured her to change them. When she refused, Segarra said she was called to a meeting where her bosses told her they no longer trusted her judgment. Her phone was confiscated, and security officers marched her out of the Fed's fortress-like building in lower Manhattan, just 7 months after being hired.

"They wanted me to falsify my findings," Segarra said in a recent interview, "and when I wouldn't, they fired me."

Today, Segarra filed a wrongful termination lawsuit against the New York Fed in federal court in Manhattan seeking reinstatement and damages. The case provides a detailed look at a key aspect of the post-2008 financial reforms: The work of Fed bank examiners sent to scrutinize the nation's "Too Big to Fail" institutions.

In hours of interviews with ProPublica, the 41-year-old lawyer gave a detailed account of the events that preceded her dismissal and provided numerous documents, meeting minutes and contemporaneous notes that support her claims. Rarely do outsiders get such a candid view of the Fed's internal operations.

Segarra is an expert in legal and regulatory compliance whose previous work included jobs at Citigroup and the French bank Société Générale. She was part of a wave of new examiners hired by the New York Fed to monitor systemically important banks after passage in July 2010 of the Dodd-Frank regulatory overhaul, which gave the Fed new oversight responsibilities.

Goldman is known for having close ties with the New York Fed, its primary regulator. The current president of the New York Fed, William Dudley, is a former Goldman partner. One of his New York Fed predecessors, E. Gerald Corrigan, is currently a top executive at Goldman. At the time of Segarra's firing, Stephen

Friedman, a former chairman of the New York Fed, was head of the risk committee for Goldman's board of directors.

In an email, spokesman Jack Gutt said the New York Fed could not respond to detailed questions out of privacy considerations and because supervisory matters are confidential. Gutt said the Fed provides "multiple venues and layers of recourse for employees to freely express concerns about the institutions it supervises."

"Such concerns are treated seriously and investigated appropriately with a high degree of independence," he said. "Personnel decisions at the New York Fed are based exclusively on individual job performance and are subject to thorough review. We categorically reject any suggestions to the contrary."

Dudley would not have been involved in the firing, although he might have been informed after the fact, according to a Fed spokesman.

Goldman also declined to respond to detailed questions about Segarra. A spokesman said the bank cannot discuss confidential supervisory matters. He said Goldman "has a comprehensive approach to addressing conflicts through firm-wide and divisional policies and infrastructure" and pointed to a bank document that says Goldman took recent steps to improve management of conflicts.

Segarra's termination has not been made public before now. She was specifically assigned to assess Goldman's conflict-of-interest policies and took a close look at several deals, including a 2012 merger between two energy companies: El Paso Corp. and Kinder Morgan. Goldman had a \$4 billion stake in Kinder Morgan while also advising El Paso on the \$23 billion deal.

Segarra said she discovered previously unreported deficiencies in Goldman's efforts to deal with its conflicts, which were also criticized by the judge presiding over a shareholder lawsuit concerning the merger.

Her lawsuit also alleges that she uncovered evidence that Goldman falsely claimed that the New York Fed had signed off on a transaction with Santander, the Spanish bank, when it had not. A supervisor ordered her not to discuss the Santander matter, the lawsuit says, allegedly telling Segarra it was "for your protection."

The New York Fed is one of 12 regional quasi-private reserve banks. By virtue of its location, it supervises some of the nation's most complex and important financial institutions. After the 2008 financial crisis, disparate voices pointed to failures of enforcement by the New York Fed as a key reason banks took on too much risk.

Even Fed officials acknowledged shortcomings. After Dodd-Frank, new examiners like Segarra, called "risk specialists," were hired for their expertise. They were in addition to other Fed staffers, dubbed "business line specialists," some of whom were already embedded at the banks.

Segarra believed she had found the perfect home when she joined the New York Fed's legal and compliance risk specialist team in October 2011. It was a prestigious job, insulated from business cycles, where she could do her part to prevent another financial meltdown. Her skills, honed at Harvard, Cornell Law School and the banks where she had worked, consisted of helping to create the policies and procedures needed to meet government financial regulations.

As part of their first assignment, Fed officials told Segarra's group of risk specialists to examine how the banks in which they were stationed complied with a Fed Supervision and Regulation Letter issued in 2008.

The letter, known as SR 08-08, emphasizes the importance of having company-wide programs to manage risks at firms like Goldman, which engage in diverse lines of business, from private wealth management and trading to mergers and acquisitions. The programs are supposed to be monitored and tested by bank compliance employees to make sure they are working as intended.

"The Fed recognized that financial conglomerates should act like truly combined entities rather than separate divisions or entities where one group has no idea what the other group is doing," said Christopher Laursen, an economic consultant and former Federal Reserve employee who helped draft the supervisory letter.

In 2009, a review by the Fed had found problems with its efforts to ensure that banks followed the policy, which also says that bank compliance staffers must "be appropriately independent of the business lines" they oversee.

Segarra's team included examiners placed at nine other "Too Big to Fail" banks, including Citigroup, JPMorgan Chase, Deutsche Bank and Barclays.

Segarra said her bosses told her to focus on Goldman's conflict-of-interest policies. The firm had long been famous for trying to corral business from every part of the deals it worked on. "If you have a conflict, we have an interest," is an oft-told joke on Wall Street about the firm's approach.

The year before Segarra joined the Fed, for instance, Goldman had received a drubbing from the Securities and Exchange Commission and a Senate subcommittee over conflicts related to Abacus, a mortgage transaction the bank constructed. The SEC imposed a \$550 million fine on the bank for the deal. A

January 2011 Goldman report concluded that the firm should "review and update conflicts-related policies and procedures, as appropriate."

Initial meetings between the New York Fed and Goldman executives to review the bank's policies did not go well, said Segarra, who kept detailed minutes.

When the examiners asked in November 2011 to see the conflict-of-interest policy, they were told one didn't exist, according to the minutes. "It's probably more than one document — there is no one policy per se," the minutes recount one Goldman executive as saying.

The discussion turned to the name of the group that oversaw conflicts at Goldman: "Business Selection and Conflicts Resolution Group." Segarra's supervisor, Johnathon Kim, asked if business selection and conflicts were, in fact, two different groups. He was told they were not, the minutes show.

Goldman officials stated that the bank did not have a company-wide conflict-of-interest program, Segarra's minutes show. Moreover, the head of the business selection and conflicts group, Gwen Libstag, who is not a lawyer, said in a subsequent meeting on Dec. 8 that she did not consider what her staff did a "legal and compliance function," according to Segarra's minutes.

"That's why it's called business selection," another Goldman executive added. "They do both."

Given the Fed's requirements, the regulators were stunned, Segarra recounted in an interview. "Our eyes were open like saucers," she said. "Business selection is about how you get the deal done. Conflicts of interest acknowledge that there are deals you cannot do."

After the Dec. 8 meeting, the New York Fed's senior supervising officer at Goldman, Michael Silva, called an impromptu session with Fed staffers, including Segarra. Silva said he was worried that Goldman was not managing conflicts well and that if the extent of the problem became public, clients might abandon the firm and cause serious financial damage, according to Segarra's contemporaneous notes.

As part of her examination, Segarra began making document requests. The goal was to determine what policies Goldman had in place and to see how they functioned in Kinder Morgan's acquisition of El Paso. The merger was in the news after some El Paso shareholders filed a lawsuit claiming they weren't getting a fair deal.

Although Segarra reported directly to Kim, she also had to keep Silva abreast of her examinations. Silva, who is also a lawyer, had been at the Fed for 20 years

and previously had served as a senior vice president and chief of staff for Timothy Geithner while he was New York Fed president. As a senior vice president and senior supervisor, Silva outranked Kim in the Fed hierarchy.

Segarra said James Bergin, then head of the New York Fed's legal and compliance examiners, noted at a November meeting that there was tension between the new risk specialists and old-guard supervisors at the banks. Segarra said the tension surfaced when she was approached in late December by a Fed business line specialist for Goldman, who wanted to change Segarra's Dec. 8 meeting minutes.

Segarra told her Fed colleague that she could send any changes to her. When Segarra next met with her fellow risk specialists, she said she told them what had transpired. They told her that nobody should be allowed to change her meeting minutes because they were the evidence for her examination.

Around that time, Silva had a meeting with Segarra, she said. According to her notes, Silva warned her that sometimes new examiners didn't recognize how they are perceived and that those who are taken most seriously are the most quiet. Segarra took it as more evidence of tension between the two groups of regulators.

Bergin, Silva and Kim did not respond to requests for comment.

By mid-March 2012, Goldman had given Segarra and a fellow examiner from the New York State Banking Department documents and written answers to their detailed questions. Some of the material concerned the El Paso-Kinder Morgan deal.

Segarra and other examiners had been pressing Goldman for details about the merger for months. But it was from news reports about the shareholder lawsuit that they learned the lead Goldman banker representing El Paso, Steve Daniel, also had a \$340,000 personal investment in Kinder Morgan, Segarra said.

Delaware Chancery Court Judge Leo Strine had issued a 34-page opinion in the case, which eventually settled. The opinion castigated both El Paso's leadership and Goldman for their poor handling of multiple conflicts of interest.

At the New York Fed, Goldman told the regulators that its conflict-of-interest procedures had worked well on the deal. Executives said they had "exhaustively" briefed the El Paso board of directors about Goldman's conflicts, according to Segarra's meeting minutes.

Yet when Segarra asked to see all board presentations involving conflicts of interest and the merger, Goldman responded that its Business Selection and Conflict Resolution Group "as a general matter" did not confer with Goldman's

board. The bank's responses to her document requests offered no information from presentations to the El Paso board discussing conflicts, even though lawsuit filings indicate such discussions occurred.

Goldman did provide documents detailing how it had divided its El Paso and Kinder Morgan bankers into "red and blue teams." These teams were told they could not communicate with each other — what the industry calls a "Chinese Wall" — to prevent sharing information that could unduly benefit one party.

Segarra said Goldman seating charts showed that that in one case, opposing team members had adjacent offices. She also determined that three of the El Paso team members had previously worked for Kinder Morgan in key areas.

"They would have needed a Chinese Wall in their head," Segarra said.

According to Segarra's lawsuit, Goldman executives acknowledged on multiple occasions that the bank did not have a firm-wide conflict-of-interest policy.

Instead, they provided copies of policies and procedures for some of the bank's divisions. For those that did not have a division-wide policy, such as the investment management division, they offered what was available. The policy for the private banking group stated that employees shouldn't write down their conflicts in "emails or written communications."

"Don't put that in an email in case we get caught?" Segarra said in an interview. "That's a joke."

Segarra said all the policies were missing components required by the Fed.

On March 21, 2012, Segarra presented her conclusion that Goldman lacked an acceptable conflict-of-interest policy to her group of risk specialists from the other "Too Big to Fail" banks. They agreed with her findings, according to Segarra and another examiner who was present and has requested anonymity.

Segarra's group discussed possible sanctions against the bank, but the final decision was up to their bosses. A summary sheet from the meeting recommended downgrading Goldman from "satisfactory" to "fair" for its policies and procedures, the equivalent of a "C" in a letter grade.

A week later, Segarra presented her findings to Silva and his deputy, Michael Koh, and they didn't object, she said. Reached by ProPublica, Koh declined to comment.

In April, Goldman assembled some of its senior executives for a meeting with regulators to discuss issues raised by documents it had provided. Segarra said

she asked Silva to invite officials from the SEC, because of what she had learned about the El Paso-Kinder Morgan merger, which was awaiting approval by other government agencies.

Segarra said she and a fellow examiner from New York state's banking department had prepared 65 questions. But before the meeting, Silva told her she could only ask questions that did not concern the El Paso-Kinder Morgan merger, she said.

Nonetheless, SEC officials brought it up. Goldman executives said they had no process to check the personal holdings of bankers like Steve Daniel for possible conflicts, according to notes Segarra took at the time. Asked by Segarra for Goldman's definition of "conflicts," the bank's general counsel, Greg Palm, responded that it could be found in the dictionary, she said.

"What they should have is an easy A-B-C approach to how to manage conflicts," Segarra said. "But they couldn't even articulate what was a conflict of interest."

Goldman declined a request to make Palm available for comment.

As the Goldman examination moved up the Fed's supervisory chain, Segarra said she began to get pushback. According to her lawsuit, a colleague told Segarra in May that Silva was considering taking the position that Goldman had an acceptable firm-wide conflict-of-interest policy.

Segarra quickly sent an email to her bosses reminding them that wasn't the case and that her team of risk specialists was preparing enforcement recommendations.

In response, Kim sent an email saying Segarra was trying to "front-run the supervisory process." Two days later, a longer email arrived from Silva, stating that "repeated statements that you have made to me that [Goldman] does not have a [conflict-of-interest] policy AT ALL are debatable at best, or alternatively, plainly incorrect."

As evidence, Silva cited the 2011 Goldman report that called for a revamp of its conflict-of-interest procedures, as well as the company's code of conduct — neither of which Segarra believed met the Fed's requirements.

While not commenting on Goldman's situation, Laursen, the consultant who helped draft the Fed policy, said the idea is to police conflicts across divisions. "It would need to be a high-level or firm-wide policy," he said, that "would identify the types of things that should not occur and the processes and monitoring that make sure they don't."

In its email to ProPublica, Goldman cited a May report from its Business Standards Committee that says the company completed an overhaul of its business practices earlier this year that included new policies and training for managing conflicts.

Before Segarra could respond to Silva's email, Koh summoned her to a meeting. For more than 30 minutes, he and Silva insistently repeated that they did not agree with her findings concerning Goldman, she said.

Segarra detailed all the evidence that supported her conclusion, she said. She offered to participate in a wider meeting with New York Fed personnel to discuss it further. Because Fed officials would ultimately have to ratify her conclusions, she let them know she understood that her findings were subject to change.

Silva and his deputy did not engage with her arguments during the meeting. Instead, they kept reiterating that she was wrong and should change her conclusions, she said.

Afterward, Segarra said she sent an email to Silva detailing why she believed her findings were correct and stating that she could not change them. There was just too much evidence to the contrary, she said in an interview.

Three business days later, Segarra was fired.

Segarra has no evidence that Goldman was involved. Silva told her that the Fed had lost confidence in her ability to follow directions and not jump to conclusions.

Today, Segarra works at another financial institution at a lower level than she feels her qualifications merit. She worries about the New York Fed's ability to stop the next financial crisis.

"I was just documenting what Goldman was doing," she said. "If I was not able to push through something that obvious, the Federal Reserve Bank of New York certainly won't be capable of supervising banks when even more serious issues arise."