Crisis of the Week: Bond Buy Blemishes
Goldman Sachs

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Goldman Sachs Group finds itself in the crisis crosshairs after it purchased bonds from the embattled Venezuelan government, opening Goldman to charges it is helping to keep in power a
regime that is accused of human-rights abuses. The $2.8 billion bond purchase comes as opponents of Venezuela President Nicolás Maduro pressure financial institutions to stop doing deals with the government.

In a statement, Goldman said it bought the securities, which are held in funds and accounts it manages on behalf of clients, from a broker and did not interact with the Venezuelan government. “We recognize that the situation is complex and evolving and that Venezuela is in crisis,” the bank said. “We agree that life there has to get better, and we made the investment in part because we believe it will.”

The experts break down how well the firm did in responding to this crisis.

Jolie Balido-Hart, president, Roar Media: “Goldman Sachs’ pennies-on-the-dollar purchase of Venezuelan bonds generated public outrage and negative media coverage, creating a perception the Wall Street giant is trying to take advantage of the distressed Venezuelan people and supporting a regime accused of human-rights abuses.

“Goldman’s vague response sounds too much like corporate-speak, alluding to Venezuela’s ‘complex and evolving situation’ and the fact Goldman made the investment ‘in part’ because the company believes ‘life there has to get better.’ Its response not only lacks empathy and gravitas it raises more questions than it answers. If the investment was only made ‘in part’ to help the Venezuelan people, what was the remaining motivation? Maybe a ‘quick buck,’ as one critic put it?

“Goldman should more directly address fundamental questions such as its rationale and the root of its motivation, including how it believes the transaction will help the Venezuelan people. It should address concerns the deal was brought by a small brokerage and immediately accepted by Goldman without proper internal scrutiny. It is essential Goldman take a more proactive role in clearing its reputation.”

Ira Kalb, assistant professor of clinical marketing, USC Marshall School of Business: “Goldman Sachs jumped at the opportunity to buy $2.8 billion of Venezuelan bonds at a deep discount of 31 cents on the dollar so its investors could reap the benefits of anticipated healthy returns. From a risk-reward viewpoint, this transaction was a no-brainer. Goldman executives were surprised by the uproar it caused amongst opponents of unpopular Venezuela President Nicolás Maduro. This situation threatens to tarnish Goldman’s image.

“Goldman’s statement in response to the uproar may work for investors but it is unlikely to pass the believability test for those that view the transaction as a way to ‘make a quick buck’ and enable Venezuela’s president to stay in power with a 20% approval rating. To quiet the uproar, mitigate the transaction risk and improve its image, Goldman should meet with the parties—including the opposition—and forge a workable solution. In addition to a revised statement that says it made the investment with the hope that Venezuela would use the money for essential food and medicine, Goldman should consider partnering with the involved parties to provide these essentials to those most in need.”
Tadd Schwartz, president and chief executive, Schwartz Media Strategies: “As a public company, Goldman Sachs’ primary constituency is its investors. In fact, one of the company’s guiding principles reads, ‘Our goal is to provide superior returns to our shareholders.’ If Goldman Sachs believes purchasing Venezuelan debt is a shrewd investment, then that’s the company’s right—and its responsibility—to shareholders.

“But because perception is everything, Venezuela’s humanitarian crisis has now become Goldman Sachs’ public relations crisis. Even though the company correctly stood by its ‘performance-first’ investment philosophy in managing through this crisis, its statement predicting conditions in Venezuela will ultimately improve didn’t go far enough.

“Goldman Sachs directs grants to 80 countries around the world but Venezuela is missing from the list. As a corporation with near-limitless financial resources, Goldman Sachs is in a position to accelerate a turnaround in the tormented country by funding humanitarian aid, education and security for the Venezuelan people. Announcing such a move would mitigate public criticism following the controversial bond purchase, while sending a message to investors and the world that Goldman Sachs is bringing real-world social and economic change to a country in peril.”

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