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Goldman Sachs: Anchoring Standards after the Financial Crisis

We understand that there is a disconnect between how we as a firm view ourselves and how the broader public perceives our role and activities in the market. . . .To address this, we need a rigorous self-examination.[1]

— Lloyd Blankfein, chairman of the board and CEO

The Business Standards Committee affects the actions of the 32,000 people the firm employs across many countries, jurisdictions, and cultures.

— Gerald Corrigan, Goldman Sachs Bank USA chairman

It was the beginning of 2014, a time to reflect. Lloyd Blankfein, CEO of banking giant Goldman Sachs, sat at his desk on the 41st floor of the firm's Manhattan headquarters overlooking the Statue of Liberty. While reading the morning news, Blankfein recalled the press coverage the firm had received in the aftermath of the 2008 financial crisis. At the time, it had seemed that all fingers were pointing at Wall Street—with Goldman Sachs as the poster child—for irresponsible deportment and a central role in the deterioration of the global markets. "We became symbols of Wall Street greed. People didn't trust us, didn't like us. Goodwill was reduced to a thimble," remarked Blankfein. By May 2010, Blankfein had called for the formation of the Business Standards Committee (BSC) to "ensure that the firm's business standards and practices are of the highest quality; that they meet or exceed the expectations of . . . clients, other stakeholders and regulators; and that they contribute to overall financial stability and economic opportunity."[2]

Over the next three years, the firm's senior leadership spent thousands of hours conceiving and implementing the BSC's recommendations for change. Implementation of the BSC's professional development recommendations alone resulted in over 100,000 employee hours spent on training. However, even after the rigorous introspection of the BSC and the changes delivered over two years of implementation, Blankfein knew that significant challenges for the industry remained. "The trauma was very recent. There's going to be a lot of focus on us for a while," he told *Bloomberg* in February 2013.[3] As Blankfein reflected on the BSC and the strides made, he wondered how the firm would sustain the effort in an increasingly complex, fast changing and global environment.

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Goldman Sachs' History and Culture

Bavarian immigrant Marcus Goldman founded Goldman Sachs in 1869. As one of the oldest and most well-respected financial institutions in the country, the bank had survived myriad market devastations and bad deals and was known to be a market leader, innovative, and resilient. The firm had a strong culture underpinned by a small group of well-respected partners that made all strategic decisions. John Whitehead, co-chairman and co-senior partner of the firm in the 1970s and early 1980s who penned the firm's business principles (see **Exhibit 1**), described some of the partner values as "team play, no internal ugly competition, service to customers, putting the customers' interests before the firm's interests and all of those good things that make a partnership."[4] Well into its second century of operation, Goldman Sachs remained a private partnership whose clients were large corporations, financial institutions, and sovereign entities. As a result, the firm had not historically had much interaction with the general public and did not advertise.

The bank grew in the 1980s and 1990s, with approximately 3,600 employees in 1984[5] and 15,400 in 1999.[6] The number of partners went from 75 in 1991 to 221 in 1999.[7] After Morgan Stanley went public in 1986, Goldman Sachs was the last private major investment bank until it went public in 1999. Once public, the firm had to adjust to greater scrutiny not only of its financial performance but also of the firm's compensation structure, its strategy, and a broad range of shareholder interests.[8]

Goldman Sachs and the Global Financial Crisis

The global financial crisis of 2008 was preceded by an extended period of low interest rates and narrowing credit spreads in markets around the world. Inexpensive financing costs spurred domestic lending in the U.S. and throughout Europe. The credit bubble was most visibly manifested in U.S. housing and the residential mortgage space. By 2006, the residential mortgage market was booming. Home prices peaked in markets around the country, and the volume of home loans reached record highs. As the volume of lending increased, underwriting discipline declined. For example, verifying annual income information for mortgage applicants had historically been a fundamental step in due diligence in the loan origination process. However, from 2000 to 2007, loans that required no proof of income beyond the prospective buyer's own statement (known as "stated income" or "low-documentation" loans) rose from less than 2% to roughly 9% of all outstanding mortgage loans.[9]

In 2007, foreclosures, especially on subprime and non-traditional mortgage loans, strained the mortgage market. Wall Street banks were exposed through mortgage-backed securities, and by December they had already recognized $40 billion in losses in connection with the mortgage market.[10] The financial upheaval that would precipitate the financial crisis was well underway.

The slowing housing sector had begun to affect the availability of credit, and later liquidity, in the broader capital markets. By early 2008, Bear Stearns, a significant player in the mortgage business, was rumored to have a cash shortage. In late March, the Federal Reserve (the Fed) stepped in to facilitate JPMorgan Chase's acquisition of the firm. On July 30, President Bush signed into law the Housing and Economic Recovery Act of 2008 which provided an explicit government backstop for both the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). In the first week of September, the U.S. Department of the Treasury (Treasury) placed Fannie Mae and Freddie Mac into government conservatorship. A week later on September 14, Merrill Lynch, one of the country's largest investment banks, was saved from failure by Bank of America. Later that evening, Lehman Brothers filed for bankruptcy, the largest in U.S. history at $691 billion. On September 16, the U.S. government took control of insurance giant AIG

and injected $85 billion to rescue the company from collapse after it was unable to secure financing to support its operations. This was the biggest government bailout of a private company in history.

Amidst acute market stress and ongoing uncertainty, on September 21 Goldman Sachs converted from an investing bank to a bank holding company regulated by the Fed. Investors viewed bank holding companies as more stable entities with a clearer line of access to the Fed's lending facilities.[11] Days later, Warren Buffet invested $5 billion in the firm, bolstering liquidity and investor confidence.[12] In October 2008, the U.S. government provided $10 billion of capital to Goldman Sachs as part of the Troubled Asset Relief Program (TARP), the government's $700 billion measure aimed at stabilizing the financial markets and the economy.

Goldman's Public Image Takes a Hit

The public had been jarred by the financial crisis, which many believed was started by irresponsible risk-taking on Wall Street. From the recession's start in December 2007 to its trough in June 2009, gross domestic product (GDP) contracted by 4.1%, consumption fell by 2.3% and investment decreased by 23.4%.[13] Throughout 2009, the Dow Jones Industrial Average traded at levels not seen in over a decade,[14] 2.8 million properties received notices of foreclosure (an increase of 21% over 2008 and 120% over 2007),[15] and unemployment in the U.S. surpassed 10%.[16] "The American people are fed up with Wall Street," said one former senior regulatory official.[17]

In late 2008 and into 2009, the public began to question the relationship between the government's assistance, bank profits and employee bonuses. For example, large banks such as Citigroup and Merrill Lynch suffered billions of dollars in losses in 2008 but still paid out billions of dollars in bonuses that year.[18] Meanwhile, a few large financial institutions remained profitable, including Goldman Sachs. *PBS Newshour* reported Goldman Sachs "had emerged relatively unscathed from the mortgage market collapse. But, in some quarters, its eye-popping profits during the financial crisis made the firm a symbol of excess . . . ."[19]

In June 2009, Goldman Sachs repaid the Treasury's $10 billion TARP investment, including a $425 million one-time dividend. A month later, Goldman Sachs reported earnings of $3.4 billion for the second quarter of 2009, fueling backlash from the public, media, and government on its continued financial health. *Rolling Stone* published a feature calling Goldman Sachs "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money."[20] The article highlighted numerous government officials who were former Goldman executives.[21] Other banks and the media began to refer to Goldman Sachs as "Government Sachs."[22] The media also denounced the bank for being unethical by claiming it placed its own interests before its clients' through its proprietary trading activities. A reporter for *New York Magazine* wrote in July, "Goldman's profiting from [the] ethical gray area was exemplified by the real-estate market and the subprime-mortgage collapse: Goldman Sachs sold subprime-mortgage investments to its clients for years, but then in 2006 began trading against subprime on its own balance sheet without informing its clients, a hedge that ultimately let it profit when the real-estate market cratered."[23]

In August 2009, *Financial Times* captured the zeitgeist: "In recent months, Goldman has faced an unprecedented spate of negative publicity as a variety of lawmakers, corporate governance experts and magazines have accused the bank of causing last year's financial crisis, vilified its plans to pay bonuses on par with those handed out in the frothy days of 2006 and 2007, and claimed Goldman was relying on its alumni network in Washington to insulate it . . . ."[24] Gerald (Jerry) Corrigan, chairman of Goldman Sachs Bank USA and former head of the New York Fed, described the public image of Goldman Sachs, "In post-crisis 2009, the earnings of Goldman were extremely robust. From

a financial risk management point of view, Goldman had done a relatively good job. As a consequence, after Lehman Brothers and Bear Stearns had gone and others had merged, whether fair or unfair, Goldman was kind of a target."

Some at the firm thought that the negative publicity and accusations would subside over time and that performance would prevail. Chief Administrative Officer Jeff Schroeder, responsible for firm-wide critical infrastructure and processes (e.g., operations, technology and services), elaborated, "We viewed ourselves as a Wall Street firm with a very tight culture that was focused on its clients but didn't have much interaction with Main Street and the media. We were very unprepared for the burden of being a piñata and characterized as the evil empire that caused the financial crisis." Added Arthur Levitt, former chairman of the SEC and an adviser to Goldman Sachs: "The firm was a target with a bull's-eye painted on our backs. What could management do?"

Goldman's Reputation Takes another Blow

On April 16, 2010, to the surprise of executives at the firm, the SEC filed a civil fraud complaint against Goldman Sachs "for making materially misleading statements and omissions in connection with a synthetic collateralized debt obligation [Goldman Sachs] structured and marketed to investors."[25] The synthetic collateralized debt obligation (CDO)[a] was called Abacus and was sold through Goldman's securities division. The SEC alleged that Goldman Sachs had not been forthcoming with its clients that a hedge fund, Paulson & Co., had helped select high-risk loans for the CDO and then bet against the instrument's performance by taking a financial short position. The SEC had not discussed settlement options with the firm before making its charges public, the agency's traditional practice.[26] The investigation of Abacus had begun almost two years before, and Goldman Sachs had not heard from the SEC on the matter since July of 2009.[27]

Blankfein and other Goldman Sachs executives testified at an April 27 U.S. Senate hearing that drew substantial attention from the national media. Blankfein told the panel that when, "the SEC announced a civil action against Goldman . . . it was one of the worst days in my professional life, as I know it was for every person at our firm."[28] Senator Carl Levin questioned Blankfein on several employee e-mails uncovered in the investigation (see **Exhibit 2**) and on Goldman Sachs' business principle that their client interests always come first. "Goldman Sachs did well when its clients lost money," Levin said. "Its conduct brings into question the whole function of Wall Street."[29] Blankfein stressed, "If our clients believe that we don't deserve their trust, we cannot survive."[30]

A Decision to Act

Corrigan described the events of the spring of 2010 as a "wake-up call:" "There were certainly some who thought the institution was being unfairly singled out. That ultimately doesn't matter. What matters is that the commentary and criticism is the reality whether fair or not. We stepped back and said, 'We need to take a more aggressive look at what we could, and should, be doing to ensure our standards and practices are what they should be.'"

[a] CDOs were debt securities collateralized by debt obligations, including mortgage backed securities. These securities were packaged and generally held by a special purpose vehicle (SPV) that issued notes entitling their holders to payment streams derived from the underlying assets (including mortgages). In a synthetic CDO, the SPV did not actually own a portfolio of fixed income assets, but rather entered into credit default swaps (CDS) that referenced the performance of a portfolio.

Blankfein discussed what had most disturbed him:

> We may find ourselves in a time when people are antagonistic towards us, and I'm here to make sure that we don't deserve it. And in some cases, we deserved it. What really hurt us—in a warranted kind of way—what really snapped my head back, were the callous e-mails. You can explain some of it away, but when people are telling us we're too clever, and we're saying we're not in the wrong and that clients come first, and they're suspicious of us, and then we go out and confirm their thoughts with e-mails like that—you have to remember the firm only has one reputation. If you have a problem in one space, it affects us all. What bothers me most is that the people who read those e-mails didn't address it. That's real. It's not a lot of people, it's not representative, but it's there.[31]

Blankfein decided that the firm would undertake a comprehensive review of its business standards and practices and began the process to establish the BSC. "This was the first time we rigorously examined ourselves from top to bottom," remarked Gary Cohn, Goldman's president and COO. He added, "Before, it was sort of an evolution of going from a tiny partnership to a relatively large partnership to a public company. We hadn't taken such a big step back."

At the outset, some felt that a thorough self-evaluation, far beyond what regulators required, was unnecessary. Others felt that forming the BSC was an admission of wrongdoing and it would draw undue attention to the firm. Another concern was the public's reception of the BSC. Levitt, as an outside advisor and member of the BSC, "was most concerned that it would be seen as a front and discounted both internally and externally. A firm has difficulty in exposing its warts, as it should. I had seen this sort of effort fail many times."

Many at the bank thought that the BSC reflected the positive characteristics of the firm, and unprecedented times called for measures in-kind. As Richard Gnodde, head of Europe and co-head of the investment banking division (IBD), explained: "One could put one's head down and get through it or do something about it. I think establishing the BSC was doing something about it. This is an organization that likes to be in control of its own destiny." Most saw the BSC as a vehicle to "take an honest assessment," said Edith Cooper, global head of human capital management. "We had to get people to focus on the gray areas."

Blankfein made clear his dedication to the BSC and called for the undivided attention of top executives at the bank. John Rogers, the firm's chief of staff and secretary to the board, explained the move: "To answer clients and other stakeholders, we had to review our business practices in detail and change those things we should. Once the commitment was made to do it, it was going to be done thoroughly and completely."

Blankfein appointed Corrigan and Michael Evans, a vice chairman of the firm and chairman of Goldman Sachs Asia, to co-chair the BSC. Evans had previously held leadership positions in many parts of the firm, including the global equity capital markets business and the securities division. Corrigan's perspective was informed by experience at the Fed and also by his position as the co-head of the firm's Risk Committee. For Corrigan and Evans and the other senior partners[b] who joined the BSC, associated work would consume the rest of 2010. Evans recalled, "Jerry and I basically dropped everything to do this for eight months."

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[b] Although Goldman Sachs continued to use the title "partner" after it went public, partners were officially referred to as participating managing directors (PMDs).

Gearing Up

Corrigan explained the first challenge he and Evans faced as BSC chairmen: "While there was virtual consensus that we needed to do something serious, meaningful, different, to enhance our credibility and all the rest, it wasn't easy to figure out what to do."

"Some may have wanted to turn this into a strategy exercise," Schroeder commented. "They understood early on that it wasn't. Maybe someone could have said, 'This is a complex business for us to be in, we should just get out.' Well, we won't get out because it matters to our clients. But we are going to apply higher standards to it."

Another early idea was to use the committee as an opportunity to address the firm's social impact. Gnodde explained: "In simple terms, are we engaged in socially useful or socially useless activity? In plain English, what do we add to the world?" After some consideration, the idea was shelved. Gnodde said, "It was a hard thing to get right and be effective. It was either too complex or too simplistic. We had to remind ourselves that the main thrust here was business standards."

Consensus was eventually established on the remit of the BSC. According to Evans, "the problem the BSC addressed was ultimately strengthening the institutional culture and the day-to-day way in which we frame business standards, ensuring compliance and reputational care, and above all, finding areas in which existing standards may not have been robust and create new or strengthen certain pre-existing business standards."

The next critical decision focused on the BSC's areas of review. With Blankfein's and Cohn's sign-off, the chairmen decided on five areas for examination: 1) client relationships and responsibilities; 2) conflict management; 3) disclosure and transparency of firm-wide activities; 4) structured products and suitability; and 5) education, training and business ethics. Working groups were established to cover each area. They were charged with providing the BSC with their recommendations for change in each area. The recommendations would eventually be presented to the firm's board of directors.

One early question was whether to share the BSC's recommendations by publishing the final report in full or summarizing the committee's findings in a press release. The BSC chairmen felt the latter would not show the firm's commitment to the initiative. "Mike and I, Lloyd and Gary—we were all solidly in the camp of a public report. The board also said that if you're serious about it, there's got to be a public report," said Corrigan.

Committee independence would also greatly impact the credibility of the effort. As a result, it received substantial attention. Some had raised the idea of outsiders leading the evaluation. Corrigan recalled the firm's view, "The consensus was that if you got an outside person to lead this, they wouldn't know enough to do it. So, we went through a process of thinking about not just balance, but what would be most effective." Ultimately, the BSC was led internally with substantial external input and oversight—the firm used outside consultants, the board formed a special committee to help oversee the BSC, and regulators were briefed regularly throughout the remainder of 2010.

Blankfein determined the composition of the committee. He sought senior leaders of the firm who had reputations for open-mindedness, and many expressed interest. Blankfein was "encouraged by how excited people were to play a big role in this." He added, "There's tension every time we make a committee—you always have people competing to get on to have a say and gain experience—this was just ten times more intense. No one thought well, 'I'm on the banking or asset management side, so it doesn't affect me.'" Schroeder explained why he coveted being on the committee, "We had done a bad job of being prepared for the post-crisis issues. I wanted to be on the BSC to help us do better."

Members viewed the BSC and the ensuing report as "a generational milestone," said Evans. "We knew it would be pivotal in the history of the firm and that the results had to stand the test of time."

Members were also selected to ensure divisional, regional, and control function representation. (See **Exhibit 3** for BSC members.) "We reached for diversity—not only across businesses, but across 'the Federation.' Those in the Federation are not the risk-takers and producers, but mostly the risk officers. They're just over half of our headcount," said Corrigan. The Federation included controllers, legal, compliance, operations, technology, corporate treasury, and other units. Corrigan added, "The BSC placed a huge emphasis on the Federation's role. At Goldman, their independent views are a reality, and they have a strong seat at the table."

The Business Standards Committee at Work

The firm publicly announced the BSC at the annual meeting of shareholders on May 7, 2010. Blankfein asserted, "This effort will be defined by one central question: Are the clients of Goldman Sachs and the broader public interest being served in a manner entirely consistent with their highest expectations?"[32]

A press release on May 14 announced the report would go public at the end of the year. Gnodde recalled, "Before we started, we had an end date. This was a committee whose life was going to end just ahead of a year-end board meeting. That was a smart thing to have, because these things take as long as you will work on them." Evans opined on the set timeline, "We knew we couldn't rush it, but we couldn't take forever."

The first full committee meeting was held in early June. Corrigan described how he and Evans ran the meetings: "Everyone had an opportunity, both at the meeting and informally, to express their views. We opened the first 20 minutes of each meeting for anyone to raise anything they wanted. It was very democratic. And it became clear by the middle of June that every single person was committed to the hypothesis that this wasn't a sterile exercise."

In its first meetings, the BSC continued to refine the initiative's scope. Gnodde explained, "We spoke to a lot of people inside and outside the firm like we always do. It was important to have a sense of the scope, length and tone of the report and how it should be used. We asked a lot of those questions upfront, and we tried to stay true to what the report was, so we kept it about standards. Then we thought, 'How could you do a standards report without thinking through governance?'" Committee governance was added to the BSC as sixth area for examination. (See **Exhibit 4** for a description of the six working groups.)

Through open discussion, the committee quickly dug into major issues. At an early stage, the BSC proposed moving certain underwriting and origination activities, such as mortgage-backed and certain asset-backed securitizations, from the securities division to IBD. The proposal would drive a significant reorganization in the firm's business. Corrigan called this sea-change decision an early indicator of the BSC's impact: "This would cause a big chunk of revenue to move from one unit to another. I thought, 'This is going to be warfare!' and that even under ideal circumstances, it would be very hard to get unanimous agreement across the BSC about this. Pulling that off sent a grand signal that nothing was off limits."

As work proceeded, the committee's attention fell on the firm's original business principles, written by John Whitehead in the 1970s. Some thought the 14 principles should include more focus on being a market maker, a role in which the firm commits capital as a principal, buying and selling

securities to set a price that reflects market conditions. Market-making was non-fiduciary, meaning Goldman Sachs did not have an obligation to act for the sole benefit and interest of the counterparty: its role was to provide pricing and liquidity to the market. Rogers explained there was a "debate about refining our business principles around what a market maker does. Would changing the principles lead to more confusion rather than less? There was a healthy debate about it." "I'd say in the first week, there was more of a view that we should re-write some of our business principles," said Gnodde. David Greenwald, then deputy general counsel and international general counsel, summed up the debate: "We decided they were biblical in nature and we shouldn't change them." "We didn't need to change the culture. We needed to reinforce it," said Blankfein.

Work intensified through the summer and into the fall. One-hundred-thirty of the firm's managing directors across every division and region were directly involved in the BSC working groups. Another 185 employees throughout the firm spent a substantial amount of their time day-to-day supporting the working groups. In total, the six working groups held over 300 meetings as they conducted their analysis and drafted recommendations.

The BSC's six working groups conducted internal due diligence to identify key issues and areas for improvement. The working groups interacted with external constituencies, including alumni of the firm. For example, the transparency and disclosure working group engaged the firm's investors and the investment research community for feedback on the firm's disclosure and reporting.

A challenge in the analysis of the client relationships and responsibilities working group was how to gather information on clients' perceptions of the firm. Clare Scherrer, COO of the working group and co-head of the global industrials group in IBD, related that though the BSC agreed that clients needed to be heard, "opinions differed on how we should hear their voice." She continued, "There was a tendency to think, 'We could do this well ourselves.' We hadn't used outside advisors very often in the past." But some were concerned that if clients were surveyed by a Goldman team, there might be listener's bias or the clients would not feel they could be honest.

Ultimately, Goldman Sachs retained The Boston Consulting Group (BCG) to conduct non-attributable, in-person interviews with a cross-section of the firm's clients. Clients were selected from each of the firm's main businesses globally. Of 208 clients invited to take part, eight declined. BCG developed interview guides of approximately 15 subjects, but interviews were conducted as discussions. Partners from BCG, including the group's chairman, ran the interviews. No Goldman Sachs employees participated. BCG presented its conclusions and analysis of the survey later that fall.

The survey "uncovered an irony," said Carl Stern[c] BCG's then chairman who led the interviews. "Clients respected the quality of the people they worked with at the firm, but they had trust issues with Goldman as a whole." Gavin O'Connor, COO of the investment management division, described the phenomenon, "It's like, I support my congressman, but I don't trust Congress."

The survey also surfaced client concerns with the complexity of the firm's business and perceived conflicts of interest. Clients expressed misgivings about the various roles across the firm's different divisions and paid particular attention to the firm's role as a market maker. Some clients felt Goldman's own trading represented a conflict with its clients. Evans explained, "Clients perceived the firm as too focused on proprietary trading." He continued:

> People thought that because the firm earned more profits from the securities division, we weren't focused on clients in banking and asset management. Business

[c] Stern left BCG and became a Chicago-based vice chairman in IBD at Goldman in 2011.

composition changed in the last 15 years. People saw that over 60% of revenues were from sales and trading. Though a small proportion of it was proprietary, people didn't hear that. Since less of the firm's revenues came from banking, some thought the firm was no longer as traditionally client-oriented. We needed to address that and send a message that we were cognizant of these concerns.

Charting a Course for Change: The BSC Report and Recommendations

In parallel to the hundreds of meetings of the working groups, the firm's senior leadership spent a significant amount of time on the BSC effort over the course of 2010. In the eight months between announcement of the BSC and publication of its report, the full BSC met 17 times, including two full-day sessions. The special committee of the firm's board of directors met 13 times, and the full board reviewed the committee's progress at three board meetings during the year.

On January 11, 2011, Goldman Sachs released the 63-page "Report of the Business Standards Committee" which detailed the committee's approach and 39 recommendations for change. A month earlier, the *New York Times* had reported on expectations for the BSC's work, "The results are highly anticipated by more than Goldman's 35,400 employees. Every firm on Wall Street will pore over them. The firm's public image may have been tarnished by reams of bad press and [the SEC] lawsuit—since settled—contending that the firm shortchanged some of its customers. But the bank is still considered the gold standard among its peers."[33]

The media's reaction to the BSC's recommendations was mixed. *CNBC* wrote that the report was "meant to reassure Goldman's clients, to placate regulators, and to direct employee activity," and criticized it for being "less effective than it would have been if it dared to aim at something more profound."[34] The *Financial Times* said "many of the reforms being suggested by Goldman make sense," but warned of the "encroaching bureaucratization of Wall Street. . . . From expanded reporting lines and segmenting clients by risk appetite to additional compliance procedures and ensuring consistency across the bank, these changes also require mountains of work."[35]

Even after publication of the report, Goldman's public image continued to be slighted. In 2011, an article in *Foreign Policy* titled "How Goldman Sachs Created the Food Crisis" criticized the firm for participating in the commodity futures market and making food more expensive around the world.[36] In March 2012, Greg Smith, a former Goldman Sachs executive director (one of several thousand in London), publicly announced his resignation in a *New York Times* op-ed. Smith wrote of "a decline in the firm's moral fiber" claiming that colleagues called clients "muppets."[37] He referred to the firm's environment as "toxic and destructive."[38] Seven months later, Smith published his tell-all, *Why I Left Goldman Sachs*.[39] As with other reputational issues, the firm received many inquiries from clients. Cooper recalled, "As soon as we heard about that, we first asked, is this fact or fiction? Do we really have people talking that way? You have to do the due diligence. And we did." The issue fell from the headlines when the claims in Smith's book were not substantiated by concrete evidence.

Implementation: Putting Recommendations into Practice

Publication of the Committee's report in January 2011 was a first step. The recommendations were aspirational. Following the release of the BSC's report, the firm embarked on a two-year process of implementation that sought to convert these aspirations into new and enhanced policies, practices, and procedures. Evans remarked on working on a long-term initiative in a changing environment, "The underlying conditions, whether in the regulatory environment, the news, or the industry, have

changed over time. From a documentation and implementation standpoint, that's the unique part of doing something that's a multi-year process."

To ensure full implementation, the BSC created the Implementation Oversight Group. Schroeder outlined the importance of the new group:

> After the report was out, we asked, "How do we keep people focused?" We couldn't rely on everyone who came up with the recommendations for implementation—it was too big of a time commitment—so, we brought in fresh teams. That was a great decision; new people are eager, and that gave us energy. Mike, Jerry, and I worked as a team to draft the right people and make clear what we expected of them, which was to follow what the report said.

Over the next two years, Evans, Corrigan and others overseeing the process identified three core themes that shaped implementation and integrated the report's many recommendations. The themes were: 1) a higher standard of client care, 2) greater reputational sensitivity and awareness, and 3) a deeper commitment to individual and collective accountability.

A Higher Standard of Client Care

Implementation focused on elevating the standard of client care by focusing on practices related to client service, communication with clients, and individual accountability for client interests.

Roles and responsibilities In light of the firm's activities as a market maker during the crisis, "the principle that clients come first kept getting thrown back in our face," said Rogers. To address any confusion regarding Goldman's different obligations across its various roles, the BSC recommended more clearly defining the firm's responsibilities for each of its businesses. To do this, the firm created a framework outlining Goldman's capacities as banking advisor, fiduciary (wealth manager), market participant (market maker or broker), and underwriter. "At first, people were nervous about coming out and saying, 'Based on the role we play, the firm will have different responsibilities and obligations to different clients,'" said Greenwald. However, members of the BSC stated that this was an important result of the BSC process and believed that the matrix provided all employees of the firm with clarity as to the firm's obligations in each of its businesses (see **Exhibit 5**). Over 6,000 client-facing employees participated in training on roles and responsibilities and how to communicate them to clients.

The Client and Business Standards Committee The Client and Business Standards Committee (CBSC) was formed at the recommendation of the BSC to assess business practices, reputational risk management and client relationships. Chaired by Cohn, the 20-member CBSC met weekly, and all members were longstanding partners. Blankfein noted, "The CBSC is the most sought-after committee assignment other than the management committee, because they tackle the knottiest, most intellectually difficult issues."

The CBSC focused on practices and procedures that impacted day-to-day execution. Evans said, "The priority of the CBSC was clients and reputation. The CBSC was a new way of thinking about how we run our businesses here. It's about continuous improvement. We try to look around corners and decide if we need to adapt. Gary runs an open dialogue at the beginning of every meeting, and anyone can raise anything." One example of an opening discussion was when a committee member noted the firm's peers had announced they would pay fines to U.S. regulators related to Office of Foreign Assets Control (OFAC) violations. The CBSC scheduled a presentation on Goldman's OFAC compliance for the next meeting. As part of the committee's formal agenda, all major business units

in the revenue-producing divisions and Federation make annual reports to the CBSC which include a review of risk factors from the vantage point of the business unit.

Along with the firm-wide risk committee, the CBSC is the only committee to report directly to the firm's management committee. (See **Exhibit 6** for the firm's overall committee structure.)

Reputational Sensitivity and Awareness

Although many at the firm felt Goldman Sachs' risk management was best in class, the BSC identified a range of areas for improvement in light of the firm's recent experiences. Evans explained, "We knew about financial and operational risks, but we were less clear about potential risks to our reputation. Who could have predicted that we would end up in a lawsuit over a product like Abacus? The answer is you can't. We're going to make mistakes going forward, there's no question, but our experiences have changed the way we think." The firm implemented a more systematic, integrated and comprehensive framework for reputational risk monitoring and management. This included improved disclosure, stronger standards for transaction approvals, assessing suitability and identifying, escalating and resolving conflicts.

Suitability Within the securities division, the firm implemented new policies and procedures to provide salespeople and managers with better tools to assess product suitability. As a first step in this process, every client was classified by sales into one of three segments: professional investors, other institutional accounts, or high-net worth individuals. This helped the firm better understand if each client had "the background, experience and capacity to understand the range of outcomes from transactions they execute . . . particularly those transactions that are strategic or complex."[40] In tandem, every product was assessed for complexity. Client sophistication and product complexity formed the parameters in a suitability tool called the Transaction Class Matrix (TCM) to be used by salespeople. Implementation of the TCM required substantial investment in new technology, significant employee input, and training time for more than 2,000 employees worldwide.

Anne Marie Darling, COO of securities sales in New York, described the process: "We rolled out a suitability tool for salespeople to complete a TCM for each of their clients, which was a tremendous effort. We created 22,000 TCMs, and it's growing." Commenting on how employees felt about the new system, Darling said: "In the beginning, there was some concern regarding the initial effort to complete the TCM for each client, but in the end, salespeople were satisfied with the efficient workflow as well as the accountability it created by having one person accountable for each trade." Roll-out of the TCM was completed in early 2013.

With the new, more defined framework, "A lot of times things get turned down at the desk before going to committee," remarked Darling. The system was also designed to raise flags automatically, "If a salesperson wants to trade something that is not covered by the client's TCM, an alert is sent to the salesperson and compliance, and ultimately a supervisor. If it gets turned down there, we would tell the client, 'Unfortunately you have to do this trade with someone else.'" If a transaction was approved and executed, the firm could track the performance of the product. "We've also built in post-trade mechanisms to understand when there is a significant downward movement on a trade we've executed for a client to ensure the salesperson is focused on the client relationship throughout the life cycle of the trade," said Darling.

The firm also created two new committees: the Firmwide Suitability Committee (FSC) and the Firmwide New Activity Committee (FNAC), which replaced the new products committee. The FSC became the central point at the firm for determining the suitability of a transaction that merited heightened review for the client and, from a reputational point of view, for the firm. Transactions

subject to heightened review by the FSC fell into one of three categories defined in the BSC Report: structured, strategic, and complex (see **Exhibit 7** for definitions from the BSC Report). The FNAC determined both whether a new activity was appropriate and whether the transaction was advisable from a reputational perspective. The charter and membership of the FSC and FNAC were established by June 2011. (For more information on the new suitability framework, including the role of the FSC and the TCM in the lifecycle of a transaction, see **Exhibit 8**.)

Greenwald explained the importance of the heightened standards, "There's a tension between driving revenue and ensuring we're only earning revenue from those things we should. It's not legal versus illegal, because that's an easy distinction. It can be boiled down to four words: Can we? Should we?" "We've always been focused on the 'can we' question," said O'Connor, "Now we're very focused on 'should we.' Part of the process is getting people to know where to draw the line. It's not binary."

Transaction review and approval More rigorous standards for transaction review and approval were implemented, including a number of changes that sharpened internal conflicts in the firm's processes. "Maybe more than any other, our employees and our clients observed this change in the way we reviewed and approved transactions," said Corrigan. The firm created a new standard of "conditional approval" to assist transaction review committees in holding employees accountable for addressing reputational and other risks. Prior to the creation of this new standard, a transaction sent to committee for review could be "approved as proposed" or "declined/withdrawn." The standard of "conditional approval" indicated that the transaction should not—and would not—be approved until certain conditions were met to the satisfaction of the review committee. During 2012, roughly one-third of transactions reviewed by the FSC were "conditionally approved." (See **Exhibit 9** for further detail of "conditional approval.")

Disclosure The firm strengthened its standards of disclosure and transparency by offering documents for complex and structured products it originated. It also sought to address client concerns regarding conflicts of interest and modified its engagement letters with its IBD advisory clients to explain the activities of the firm, particularly activities outside of IBD. The letters described the firm's wall-crossing process, its market making activities, its research function, and its multi-faceted investment management business. It highlighted that these businesses acted independently of IBD and have economic interests by virtue of their investments and trading positions that may be impacted by an IBD transaction.

The BSC worked to ensure that the public could look at the firm's financial statements and disclosure documents and understand the firm's activities and interests. Peter Finn, corporate controller said, "Ultimately, you want documents that meet all regulatory requirements, are transparent, readable, and inviting." The bank's three primary business activities were reorganized into four segments. Activities previously aggregated into the trading and principal investments segment were separated into two new segments: 1) institutional client services and 2) investing and lending. "There was robust debate around constructing the segments and what level of detail we would provide," said Finn. He added, "Breaking out investing and lending from our market making business was a good decision. It allows people to see exactly the size of market making activities." (See **Exhibits 10a** and **10b** for a depiction of the reorganization and **Exhibit 11** for historical operating results by segment.)

Despite a concern that competitors would have access to detailed information about the firm, Goldman Sachs opted for transparency. Evans explained, "Anytime you're doing something that your competitors don't, you worry." He added, "There were people internally with strong views of

how much we should show. We recommended breaking out all proprietary business. This way, people could see how client-driven the firm really is. Some people thought this made perfect sense. Others didn't."

Individual and Collective Accountability

BSC members felt commitment to client care and reputational awareness had to be reinforced by accountability throughout the organization. New training programs were instituted that engaged employees at all levels of the firm. The firm also made changes to how it recognized and rewarded its employees to more strongly align their interests with clients and the firm's reputation. "It's easy to blame the firm, but you're not doing your job if you're just managing your relationship with a client and not the whole firm's relationship," said Scherrer. "We touch clients in a thousand small ways that leave an impression. Each imprint is part of a mosaic."

In discussing these changes, the BSC's report outlined what was at stake:

> Each employee of Goldman Sachs has the responsibility for protecting the firm's reputation; an employee can do more to harm the firm's reputation through a single poor judgment than he or she can do to enhance it throughout an entire career. . . . The better employees understand *why* we have certain expectations about behavior and conduct, the more likely they are to make good judgments.[41]

The Chairman's Forum To open a firm-wide discussion on reputational excellence and personal accountability, the BSC recommended the Chairman's Forum as part of a training series for Goldman's 2,200 partners and managing directors. This was the third iteration of the forum: it had been used as a training tool in 2005 to focus on leadership, then in 2007 to discuss client relationships.

"We created a curriculum and our own training tools to go with it," Rogers said of the program. "The case study that accompanied the forum raised a number of issues, many with no obvious answers. Having a dialogue with colleagues about what you should do really taught people that you have to look at many aspects when making a decision," said Cooper. She added, "Jerry Corrigan and other partners were involved in thinking of the examples used in the case study. We needed it to be realistic and specific." "Designing things like the Chairman's Forum was a very involved process," remarked Corrigan, "But it worked."

The Chairman's Forum for partners and managing directors was held over 23 sessions in New York, London, Hong Kong, Tokyo, Sydney and San Francisco. Blankfein led every session in person. Later, the firm's 11,000 vice presidents participated in the Chairman's Forum. This second round included 78 forums in 20 cities and depended on senior leaders to emphasize and share their values with younger employees at the firm.

Employee annual performance reviews The BSC recommended that employee annual reviews be modified to include an assessment of an employee's performance in the areas of reputational risk management, judgment and compliance. As part of implementation, annual performance reviews were revised to assess an employee's performance in decision-making, adherence to risk management practices, the treatment of clients' information, knowledge of applicable laws, and numerous other categories. Scherrer explained the goal: "A lot of what the BSC needed to do was not easy like flipping a switch; it's more nuanced, like turning a dial to change behaviors ever so slightly, which is difficult. By comparison, if you're doing something completely wrong, that's easy to change." While part of the review involved ranking employees on a scale, reviewers also provided written feedback on the new areas. Cooper said, "We try to have a well-

balanced set of reviewers and impressions, and we try to include compliance and legal reviewers when we can. Connecting the dots between what we say is important and what we recognize in promotions is another piece." (See **Exhibit 12** for the sections of the firm's annual employee reviews added in implementation.)

The BSC Impact Report

Over the course of the two-year implementation process, the firm sought to keep its employees, clients, regulators and board informed. Corrigan and Evans met regularly with the firm's major regulators in the U.S., Europe and Asia, conducting over 20 meetings. Regular progress reports were provided to the firm's board of directors.

At the beginning of 2013, implementation was nearly concluded. Blankfein asked Corrigan, Evans, and other senior leaders involved in implementation to prepare a public document to update the firm's employees, shareholders, regulators and the public on progress made since the BSC report was published in 2011. The "Business Standards Committee Impact Report" (Impact Report) was released in May 2013 at the annual meeting of the firm's shareholders and then posted on the firm's website along with supporting materials. (See **Exhibit 13** for a summary of the Impact Report.)

The report summarized the most important changes from the BSC process: "Most significantly, for all our employees, the experience of initiating, approving and executing a transaction for a client at Goldman Sachs is now fundamentally different." It continued:

> This difference reflects significant changes to processes, business standards, documentation and transaction approvals, all of which impact our approach to decision-making. Process matters and the BSC changes have led to our processes being more clear, comprehensive and consistent. . . . Taken together, these changes result in better judgments and decision-making, which are among the most important impacts emerging from the work of the BSC.

In the firm's 2012 annual letter to shareholders also published in May 2013, Blankfein and Cohn reflected on the three-year BSC project: "The past few years have been a period of both introspection and deliberate action, including a comprehensive examination of our business practices. . . . We never lose sight of the fact that we are stewards of an industry-leading franchise that was built over nearly 145 years. This means that while we have an obligation to meet the near-term demands of the current environment in which we operate, we need not completely surrender to them."[42]

The press received the Impact Report with relatively little fanfare. The *Financial Times* wrote that since the announcement of the BSC, "Goldman appears to have staunched its critics. . . . Whether Goldman's clients appreciate the changes remains to be seen.[43] By the end of the second quarter of 2013, Goldman's competitive position was robust. ". . .[W]hatever clients' misgivings, the bank heads the M&A league tables," reported *The Economist*.[44] (See **Exhibit 14a** and **14b** for league tables.)

Sustaining the Spirit of the BSC

Following publication of the Impact Report, Blankfein believed that the BSC's work had reinforced the firm's longstanding framework of values and culture. He also knew that the acute stress of the financial crisis had served to motivate the firm and its most senior leaders over the three-year period from the BSC's inception to completion of implementation. Maintaining this focus would

be a challenge, however. "Recent history has a way of impacting sustainability, and we tried to use this as a time to recharge our batteries. But batteries lose their charge," Blankfein reflected.

Other senior leaders echoed Blankfein. Board member Bill George said, "There's not a guarantee that the new generation will view the work of the BSC with the same level of importance. You have to make sure that they do." Gnodde noted the firm's regular turnover: "We lose 10% of our population through attrition, and 50% of our new hires leave after five years. Every year we hire 2,500 people. The challenge is that this could get to be ancient history quite quickly."

The BSC's imprint continued: the firm's board of directors established a Public Responsibilities subcommittee that convened regularly to discuss issues at the core of the BSC's mission. Another independent client survey was also planned. The turbulence of the last five years remained front-of-mind for senior management. "We fully understand that change in our business is constant—in the economy and in the challenges our clients must face, in regulation and technology, in the markets," said Corrigan. "This reminds us that we are going to have to adapt to this changing environment. That adaptation itself will be an acid test of how well the BSC's work will be carried forward."

Despite the immense amount of work done to develop and implement the recommendations of the BSC, it was clear that the challenges for the firm would persist. Did the BSC's recommendations address the right set of issues, or did the firm miss an opportunity to thoroughly examine a broader set of issues that weighed on the industry? Did the BSC prepare the firm for the next big set of challenges facing the firm, the industry and the broader economy? How would the firm sustain the impact of the BSC?

Exhibit 1 The Goldman Sachs Business Principles

Our clients' interests always come first.
Our experience shows that if we serve our clients well, our own success will follow.

Our assets are our people, capital and reputation.
If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard.

Our goal is to provide superior returns to our shareholders.
Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders.

We take great pride in the professional quality of our work.
We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

We stress creativity and imagination in everything we do.
While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

We make an unusual effort to identify and recruit the very best person for every job.
Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm.

We offer our people the opportunity to move ahead more rapidly than is possible at most other places.
Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be.

We stress teamwork in everything we do.
While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients.

The dedication of our people to the firm and the intense effort they give their jobs are greater than one finds in most other organizations. We think that this is an important part of our success.

We consider our size an asset that we try hard to preserve.
We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy and the esprit de corps that we all treasure and that contribute greatly to our success.

We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs.
We know that the world of finance will not stand still and that complacency can lead to extinction.

We regularly receive confidential information as part of our normal client relationships.
To breach a confidence or to use confidential information improperly or carelessly would be unthinkable.

Our business is highly competitive, and we aggressively seek to expand our client relationships.
However, we must always be fair competitors and must never denigrate other firms.

Integrity and honesty are at the heart of our business.
We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.

Source: Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, accessed October 2013.

Exhibit 2 Excerpt from Senator Levin's Questioning at the Senate Hearing—2010

Senator Levin: We have heard . . . example after example where Goldman was selling securities to people and not telling them that they were taking and intended to maintain a short position against those same securities. I am deeply troubled by that, and it is made worse when your own employees believe that those securities are "junk" or "a piece of crap" or a "shi**y deal," words that those emails show your employees believed about a number of those deals. . . . Do you think they [Goldman's clients] know that you think something is a piece of crap when you sell it to them and then bet against it? Do you think they know that?

Mr. Blankfein: Again, I don't know who the "they" is and —

Senator Levin: We went through it today.

Mr. Blankfein: No, I know. I know, Senator, and there were individual emails that were picked out and some people thought something. But I will tell you —

Senator Levin: I am just asking you a question. Do you think if your people think something is a piece of crap and go out and sell that, and then your company bets against it, do you think that deserves your trust?

Source: "Wall Street and the Financial Crisis: The Role of Investment Banks," Senate Hearing 11-674, Vol. 4, from the U.S. Government Printing Office, April 27, 2010, http://www.gpo.gov/fdsys/pkg/CHRG-111shrg57322/html/CHRG-111shrg57322.htm, accessed October 2013.

Exhibit 3 Goldman Sachs Business Standards Committee Members (May 2010)

The Co-Chairs of the Business Standards Committee will be **E. Gerald Corrigan**, Chairman of Goldman Sachs Bank USA, and **J. Michael Evans**, Vice Chairman of Goldman Sachs and Chairman of Goldman Sachs Asia. Members of the Committee will include:

Edith W. Cooper, Global Head of the Human Capital Management Division

Michael Daffey, Global Head of Equities Sales and Securities Distribution Europe

Richard J. Gnodde, Co-CEO of Goldman Sachs International

David B. Heller, Global Co-Head of the Securities Division

Kevin W. Kennedy, Head of Goldman Sachs Latin America

Arthur Levitt, Former Chairman of the U.S. Securities and Exchange Commission

Gwen R. Libstag, Head of Firmwide Business Selection and Conflicts Clearance

Timothy J. O'Neill, Co-Head of the Investment Management Division

Harvey M. Schwartz, Global Co-Head of the Securities Division

Sarah E. Smith, Controller and Chief Accounting Officer

David M. Solomon, Co-Head of the Investment Banking Division

John S. Weinberg, Vice Chairman and Co-Head of the Investment Banking Division

Matthew Westerman, Global Head of Equity Capital Markets

Jeffrey W. Schroeder, Goldman Sachs Chief Administrative Officer, will act as the Committee's Chief Operating Officer and **David J. Greenwald**, Goldman Sachs International General Counsel and Deputy General Counsel, will be Of Counsel to the Committee.

Source: Goldman Sachs, "Goldman Sachs Announces Details of Business Standards Committee," May 14, 2010, http://www.goldmansachs.com/media-relations/press-releases/archived/2010/bsc.html, accessed October 2013.

Exhibit 4 Description of BSC's Working Groups (excerpt)

The Business Standards Committee identified six important areas for detailed examination based on the events and developments of recent years. We established a working group for each area:

- **Client Relationships and Responsibilities**. We examined the responsibilities we have to our clients, their expectations of the firm, the different roles we may play to accomplish our clients' objectives and how the firm communicates with clients. We identified actions that would further strengthen our focus on clients and long-term relationships.
- **Conflicts of Interest**. We examined our approach to conflicts that arise in our business and how we can strengthen our procedures for resolving them. We reviewed the various ways in which our role in serving one client may intersect with our role in serving other clients or with the firm's own interests. We considered the views of our clients, our people, other stakeholders, regulators and the broader public.
- **Structured Products**. We examined how to improve the process for identifying structured products that should be subject to heightened review. We focused on strengthening our processes for evaluating and approving these products and their suitability for particular clients, as well as pre- and post-transaction sales practices, product origination, underwriting and disclosure standards.
- **Transparency and Disclosure**. We examined how to improve the firm's financial reporting and enhance disclosure of business mix, risk management, balance sheet composition and liquidity. In particular, we explored how to explain our activities more clearly, especially as they relate to our performance and our commitment to serve clients.
- **Committee Governance**. We reviewed the governance, standards and practices of certain of our firmwide operating committees to ensure their focus on client service, business standards and practices and reputational risk management. In particular, we found ways to strengthen accountability, compliance and internal control standards.
- **Training and Professional Development**. We examined how to ensure our training and professional development, including our annual performance evaluation process and incentives, enhance our culture and strengthen the values of client service as well as behavior and personal accountability.

Source: Excerpted from Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, p. 3, accessed October 2013.

Exhibit 5 Goldman Sachs Role-Specific Client Responsibilities

Relationship With Client: Advisor		
Role	**Activities**	**Basic Responsibilities**
Banking Advisor	• Act as an advisor as agreed with client in engagement letter • Act as an advisor on an informal, client service basis with no engagement letter in place	• Provide our best advice • Disclose conflicts • Assist client in reviewing alternatives on their merits • In some jurisdictions, fiduciary duties apply

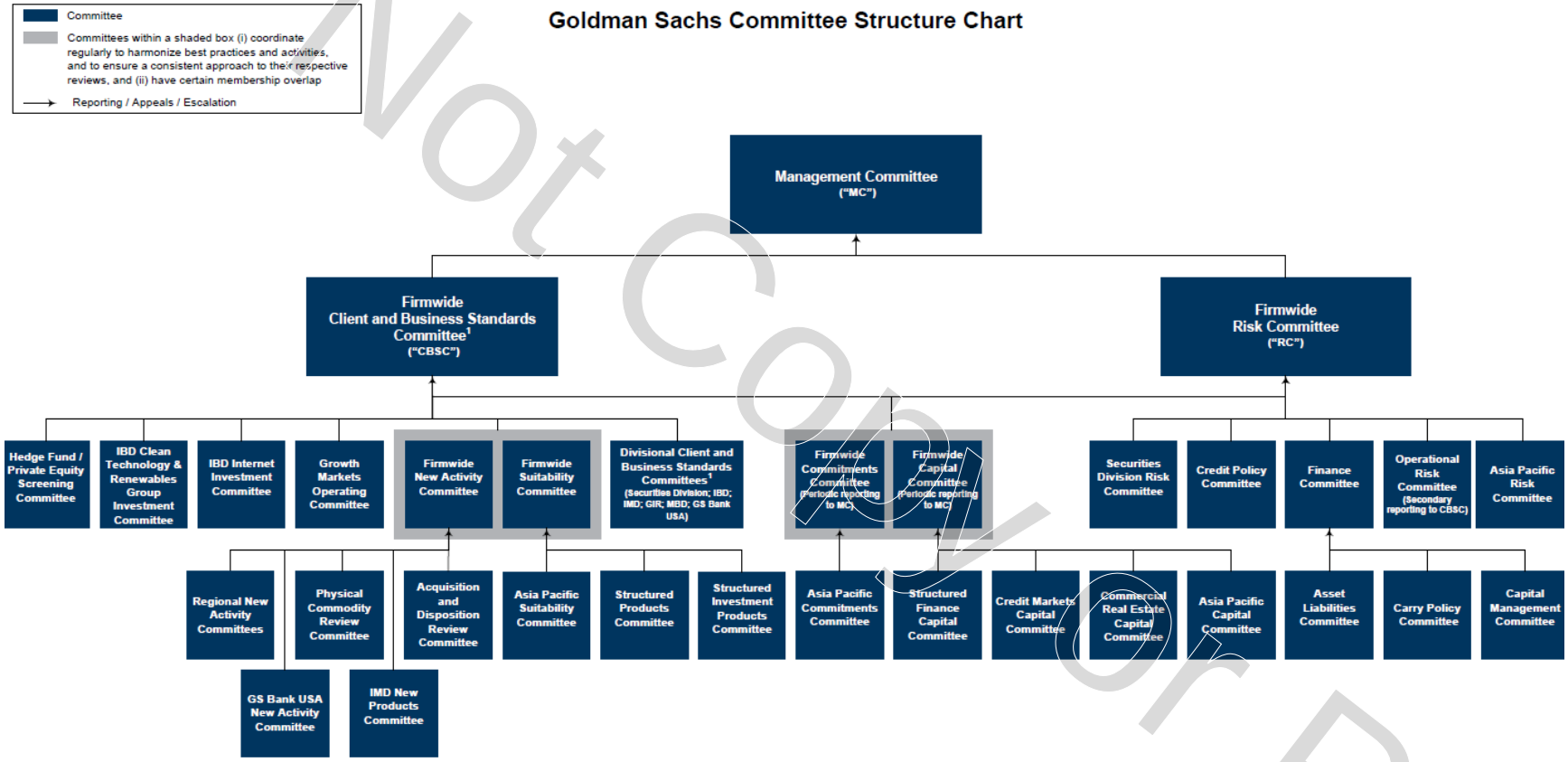
Relationship With Client: Fiduciary		
Role	**Activities**	**Basic Responsibilities**
Asset and Private Wealth Manager	• Advise on asset allocation, portfolio construction and manager or securities selection • May invest on a discretionary basis	• Provide our best advice • Disclose conflicts • May assist in reviewing investment alternatives on their merits • Fiduciary duties apply, although not in all jurisdictions

Relationship With Client: Market Participant		
Role	**Activities**	**Basic Responsibilities**
Market Maker / Counterparty (Principal)	• Make markets by committing capital • Provide investing ideas • Make our inventory available or add to our inventory	• Communicate clearly our role as principal • Stand ready to buy and sell regardless of whether the other side of the transaction is available • Set pricing to reflect market conditions • Fulfill applicable suitability and other pre-and post-transaction responsibilities
Broker	• Execute transactions for the account of clients • Provide investing ideas • Provide advice incidental to acting as broker	• Provide best execution • Arrange adequate protection of client assets for which we are responsible • Fulfill applicable suitability and other pre-and post-transaction responsibilities

Relationship With Client: Underwriter / Structurer		
Role	**Activities**	**Basic Responsibilities**
Underwriter / Product Structuring	• Structure and execute underwritings, distributions or loan syndications • May make or buy loans, or buy securities or other instruments, and issue / sell securities that are based upon those assets • Prepare disclosure and conduct marketing • Set pricing to reflect relevant issuer- and market-related factors, including investor demand, when making a broad distribution	• Conduct appropriate and thorough due diligence on issuer and / or structure, as applicable • Disclose conflicts • Endeavor to ensure there is no material misstatement / omission in disclosure • Fulfill applicable suitability obligations • In underwritings in which the issuer or selling shareholder participates in selling efforts, make allocations explicitly taking into account their interests and expressed preferences • Generally make secondary trading market

Source: Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, p. 13, accessed October 2013.

Exhibit 6 Goldman Sachs Committee Structure



[1] Regional Client and Business Standards Committees report to executive leadership in the region and to the Firmwide Client and Business Standards Committee (coordinating with Divisional Client and Business Standards Committees as appropriate.)

Source: Company document.

Note: New committees created by the BSC are: the Firmwide Client and Business Standards Committee, the Firmwide Suitability Committee, and the Firmwide New Activity Committee.

Exhibit 7 Designated Structured, Strategic and Complex Transactions (as defined in the BSC Report in its discussion of transactions subject to heightened suitability review)

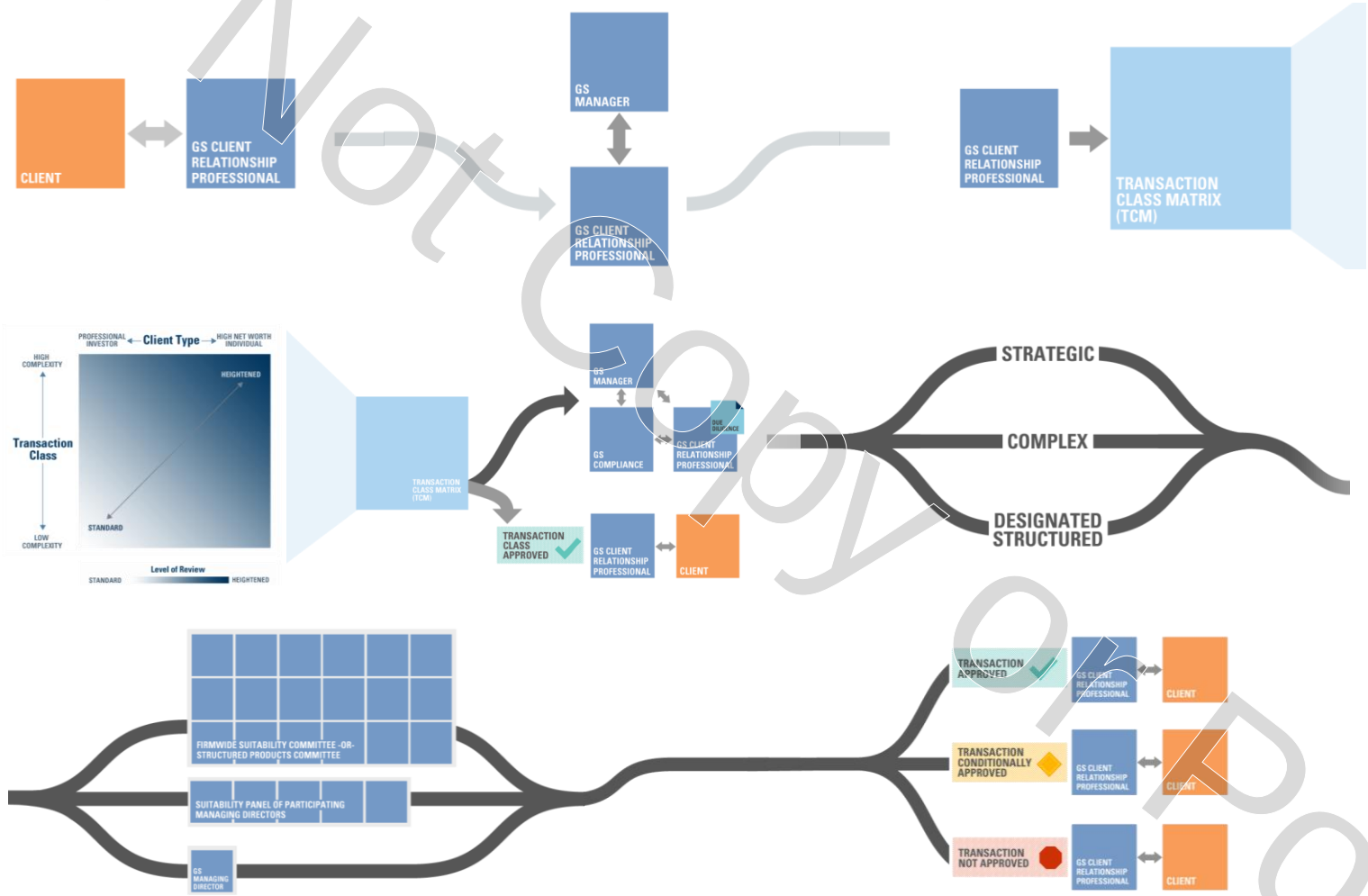
Designated Structured Transactions…. [T]ransactions, series of transactions or products where: (i) one of the client's principal objectives appears to be to achieve a particular legal, regulatory, tax, or accounting treatment, including transferring assets off balance sheet; (ii) the proposed legal, regulatory, tax, or accounting treatment is materially uncertain; (iii) the product or transaction (or series of transactions) have substantially offsetting legs or lack economic substance, or (iv) the product or transaction (or series of transactions) could be characterized as a financing, but is structured in another manner.

Strategic Transactions…. These transactions are often characterized by several of the following factors: (i) losses or gains from the transaction could reasonably be expected to materially impact the client's financial position or have an adverse reputational impact on the firm; (ii) the transaction is likely to have a material impact on the market; (iii) the transaction requires the approval of the client's Chief Financial Officer, Chief Executive Officer or Board of Directors; (iv) the transaction hedges a material acquisition, disposition or other business combination transaction by the client, and the hedge is material; (v) the transaction requires separate disclosure in the client's financial statements or will otherwise be disclosed through a public filing; or (vi) the transaction represents a large financing commitment by the client. Strategic transactions may not involve complexity or unique structural features, but nevertheless merit heightened review because of these factors.

Complex Transactions…. While not an exhaustive list, the followings factors indicate complexity: (i) leverage; (ii) illiquidity; (iii) the potential for losses in excess of initial investment; (iv) lack of price transparency; and (v) non-linear payouts.

Source: Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, p. 13, accessed October 2013.

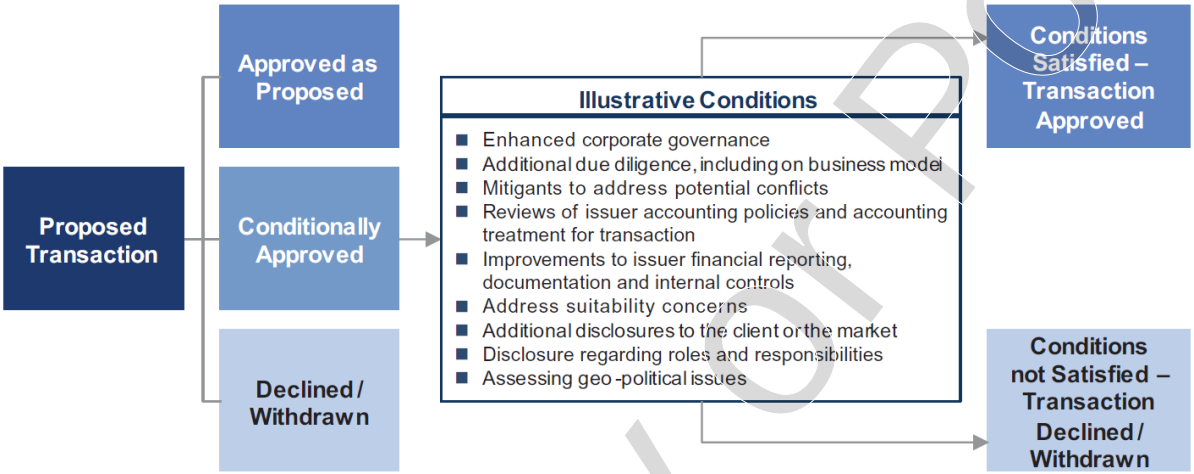
Exhibit 8 Lifecycle of a Transaction: A Schematic of the Firm's Transaction Review and Approval Process



Source: Goldman Sachs, http://www.goldmansachs.com/s/bsc-2013/#lifecycle-of-a-transaction, accessed October 2013.

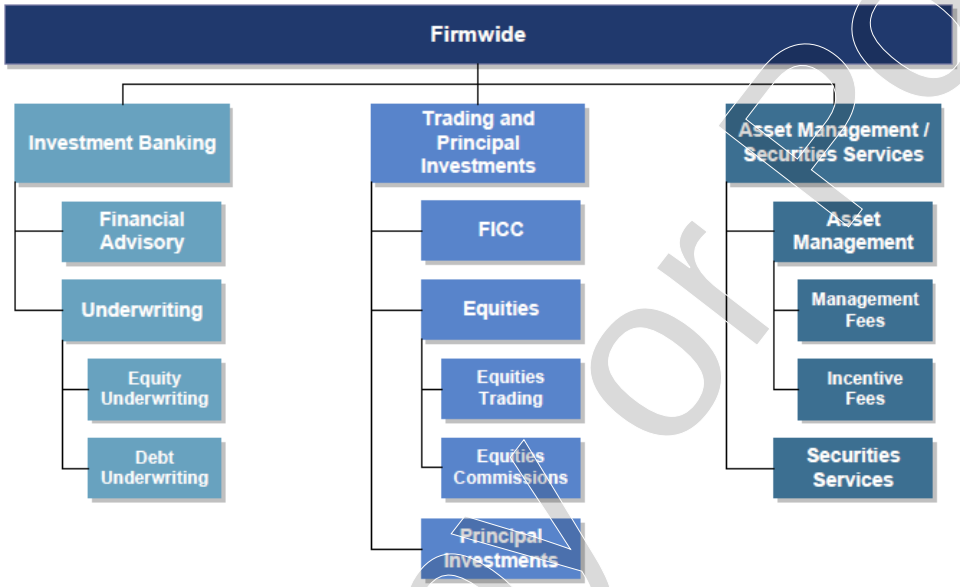
Note: See sourced link for more details and an online interactive graphic.

Exhibit 9 Illustrative Conditions Applied in Transaction Review and Approval



Source: Goldman Sachs, "Business Standards Committee Impact Report," May 2013, http://www.goldmansachs.com/a/pgs/bsc/files/GS-BSC-Impact-Report-May-2013-II.pdf, p. 14, accessed January 2014.

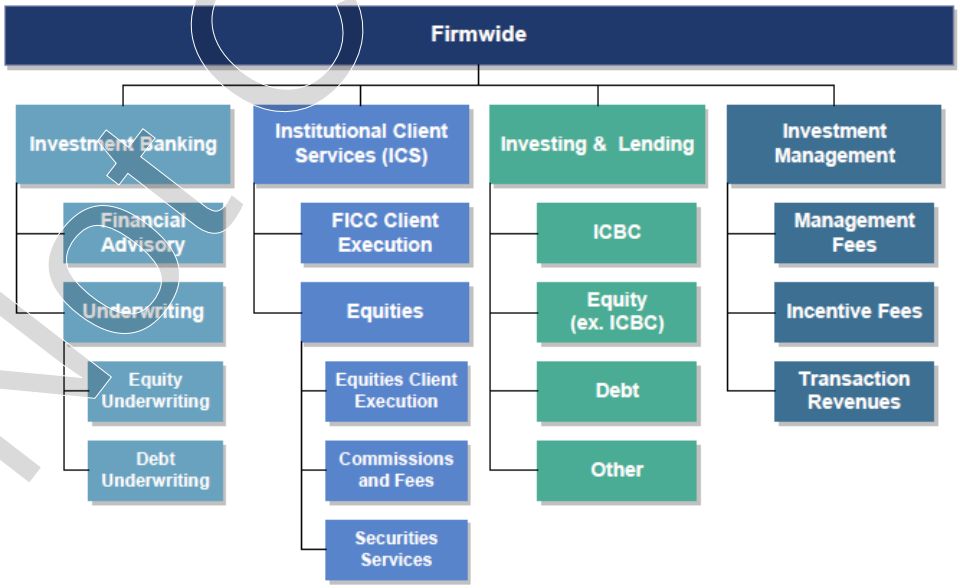
Exhibit 10a Goldman Sachs Business Segments Prior to the BSC



Source: Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, p. 39, accessed October 2013.

Note: FICC stands for fixed income, currency and commodities.

Exhibit 10b Business Segments Implemented at the Recommendation of the BSC



Source: Goldman Sachs, "Report of the Business Standards Committee," January 2011, http://www.goldmansachs.com/who-we-are/business-standards/committee-report/business-standards-committee-report-pdf.pdf, p. 39, accessed October 2013.

Note: ICBC represents Goldman Sachs' investment in Industrial and Commercial Bank of China Limited (ICBC). The firm made its investment in January 2006 and sold the last of its ICBC shares in May 2013.

Exhibit 11 Goldman Sachs Segment Operating Results (in US$ millions)

		Year Ended December					
		2013	2012	2011	2010	2009	% of 2013 Net Revenues
Investment Banking	Net revenues	$ 6,004	$ 4,926	$ 4,355	$ 4,810	$ 4,984	18%
	Operating expenses	3,475	3,330	2,995	3,459	3,482	
	Pre-tax earnings	$ 2,529	$ 1,596	$ 1,360	$ 1,351	$ 1,502	
Institutional Client Services[1]	Net revenues	$ 15,721	$ 18,124	$ 17,280	$ 21,796	$ 32,719	46%
	Operating expenses	11,782	12,480	12,837	14,994	13,691	
	Pre-tax earnings	$ 3,939	$ 5,644	$ 4,443	$ 6,802	$ 19,028	
Investing & Lending[1]	Net revenues	$ 7,018	$ 5,891	$ 2,142	$ 7,541	$ 2,863	20%
	Operating expenses	2,684	2,666	2,673	3,361	3,523	
	Pre-tax earnings (loss)	$ 4,334	$ 3,225	$(531)	$ 4,180	$(660)	
Investment Management	Net revenues	$ 5,463	$ 5,222	$ 5,034	$ 5,014	$ 4,607	16%
	Operating expenses	4,354	4,294	4,020	4,082	3,673	
	Pre-tax earnings	$ 1,109	$ 928	$ 1,014	$ 932	$ 934	
Total	Net revenues	$ 34,206	$ 34,163	$ 28,811	$ 39,161	$ 45,173	
	Operating expenses[2]	22,469	22,956	22,642	26,269	25,344	
	Pre-tax earnings	$ 11,737	$ 11,207	$ 6,169	$ 12,892	$ 19,829	

Source: Goldman Sachs Form 10-K 2013; Goldman Sachs Form 10-K 2012; Goldman Sachs Form 10-K 2011, SEC.

Note (1): Net revenues from both Institutional Client Services and Investing & Lending were previously included in the Trading and Principal Investments segment. The Institutional Client Services segment included net revenues from client execution activities. For these clients, the firm acted as a market maker and offered global market expertise. The Investing & Lending segment included net revenues from the provision of credit to corporate and high-net-worth clients as well as investments in equity, debt and other assets.

The firm re-organized business segment reporting, in part, due to public scrutiny of the firm's business activities, as many thought proprietary trading drove the firm's performance. In December 2013, the final rules to implement the provisions of the Dodd-Frank Act referred to as the "Volcker Rule" were adopted. The Volcker Rule prohibited proprietary trading, but allowed activities such as underwriting, market making and risk-mitigation hedging. In anticipation of the final rule, Goldman Sachs determined that businesses that engage in "bright line" proprietary trading were most likely to be prohibited. In 2010 and 2011, the firm liquidated substantially all of its Global Macro Proprietary and Principal Strategies trading positions. In early 2010, on the firm's earnings conference call for the fourth quarter of 2009, then-CFO David Viniar said, ". . .[T]he pure walled-off proprietary trading businesses at Goldman Sachs are not very big in the context of the Firm. . . .If you take our pure, walled-off prop business that has nothing to do with clients, you are talking about a number that probably in most years is 10-ish type of percent, plus or minus a few percent."

Note (2): Total operating expenses included certain expenses not allocated to segments, including expenses related to: (i) charitable contributions and (ii) real-estate related exit costs. The 2009 figure also included unallocated expenses related to net provisions for a number of litigation and regulatory proceedings.

Exhibit 12 New Sections Added to Goldman's Annual Employee Evaluation

Client Focus (External/Business Partners)

- Creates an environment where clients' long-term interests come first; focuses beyond immediate commercial impact
- Encourages team members to escalate client issues
- Builds and reinforces a culture that solidifies strong client relationships and trust
- Partners with clients to understand their needs and develops strategies to achieve them
- Is transparent; makes sure the client understands the firm's own role and responsibilities
- Manages clients' expectations effectively and follows up to ensure clients are satisfied

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1 Unsatisfactory 2 3 Fair 4 5 Good 6 7 Excellent 8 9 Outstanding — Unable to Judge

Reputational Excellence: Risk Management

- Balances risk and reward when making decisions
- Adheres to the firm's risk management practices and controls
- Identifies and escalates areas of control risk both within his/her team(s) and teams impacted by his/her work
- Engages all relevant parties in decision making
- Contributes to the development of sound risk policies, controls and infrastructure
- Knows applicable policies and procedures

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1 Unsatisfactory 2 3 Fair 4 5 Good 6 7 Excellent 8 9 Outstanding — Unable to Judge

Reputational Excellence: Reputational Judgment and Compliance

- Protects and enhances the reputation of the firm
- Knows applicable laws, policies and procedures
- Recognizes, escalates and proactively seeks guidance on issues
- Contributes to the development and/or implementation of policies, procedures and controls

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1 Unsatisfactory 2 3 Fair 4 5 Good 6 7 Excellent 8 9 Outstanding — Unable to Judge

3. Reputational Excellence: Please comment on how this person exhibits reputational excellence by demonstrating commitment to the Business Standards Committee recommendations and adhering to the firm's Code of Conduct, Risk Management and Reputational Judgment and Compliance policies.

Source: Company document.

Exhibit 13 Description of the BSC Recommendations and Select Highlights from the Impact Report

Recommen-dation	Description	Select Highlights
	Client Relationships and Responsibilities	
1.	Reemphasize client service values	• Client-facing professionals participated in training that focused on client service values
2.	Implement framework for role-specific client responsibilities	• Revenue divisions designed and implemented an approach for communicating about our roles and responsibilities to clients • Client-facing professionals participated in training that focused on roles and responsibilities
3.	Increase emphasis on client service / relationships in annual performance review and incentive processes	• Performance review process was updated to increase focus on clients • Client franchise metrics a factor in compensation decisions for certain senior client relationship professionals
4.	CBSC to design and implement a comprehensive program to strengthen client interactions and relationships	• Regular reporting to CBSC on the state of the client franchise (including performance metrics and current client activities and issues, business practices, reputational matters and topical industry issues) • CBSC overseeing ongoing approach to obtaining client feedback
5.	Implement training / development program on firm's Business Principles, client service values and role-specific client responsibilities	• Client-facing professionals participated in training that focused on client service values, the firm's Business Principles and our role-specific client responsibilities • Additional culture and client focus content included in orientation and promotion programs

Recommen-dation	Description	Select Highlights
6.	Design / execute communication program to introduce BSC recommendations to clients	• Rolled out multiple BSC communications to clients, other key stakeholders and regulators
	Conflicts of Interest	
7.	Enhanced Wall Cross Approval Process	• Implemented strengthened wall cross procedures; training provided to relevant personnel • Enhanced surveillance of information barriers
8.	Moved Certain Underwriting and Origination Activities	• Moved certain securities origination functions from the Securities Division to the Financing Group in IBD • Strengthened policies and procedures to achieve consistency of standards related to securities origination, including oversight, disclosure, documentation, due diligence and controls, and conducted training for relevant personnel
9.	Supplement Written Communication Restrictions During Underwriting and Advisory Assignments	• Updated our Restricted Trading List (RTL) code and revised our guidelines for communications regarding RTL securities; conducted training for relevant personnel • Established a new system for compliance personnel to monitor select written sales communications
10.	Enhanced Financing Policies and Procedures	• Instituted requirement to obtain senior management approval before firm acts as sole financing source in certain situations involving firm-related funds • Instituted enhanced review process for financing requests from bidders where firm-related funds are also bidding • Instituted a process requiring review and approval from senior management before providing staple financing for the sale of public companies • Introduced heightened review of underwriting for an issuer where the firm or its affiliates have a material interest as shareholder or creditor
11.	Integration of Certain Businesses into Conflicts Process	• Reviewed and amended certain policies in relevant IMD businesses
12.	Comprehensive Conflicts–Related Policies and Procedures	• Substantially modified our divisional business selection and conflicts policies • Created a compilation of business selection and conflicts policies, procedures and best practices

Recommen-dation	Description	Select Highlights
22.	Disclosure Standards	• Implemented enhanced disclosure requirements, with a particular focus on risk factor disclosure and appropriate due diligence
23.	Development of training and professional development programs on structured products	• Training rolled out to client-facing professionals across the Securities Division, IBD and PWM on the new requirements related to structured products, including the identification of structured/complex/strategic products, client segmentation and new pre- and post- transaction sales practices
	Transparency and Disclosure	
24.	Reorganize business segments	• Reorganized our revenue reporting in our public financials from three segments into four to provide greater clarity around the importance of client franchise activities and client facilitation to our revenues. Improved the description of our businesses and more clearly articulated the drivers of our financial performance.
25.	Disclose a simplified balance sheet	• Disclosed an alternative balance sheet in our public financials that generally allocates assets to our businesses and better enables investors to assess the liquidity of our assets
26.	Enhance liquidity disclosure	• Disclosed additional information in our public filings on the mechanics and assumptions underlying our liquidity policies which better describe our robust liquidity management framework
27.	Enhance disclosure of risk management policies and practices	• Added additional information in our public filings regarding the firm's risk management structure, culture and processes, including regarding operational risk, capital adequacy and credit risk
28.	Describe in plain language business activities and reorganize financial disclosures	• Rewrote business descriptions in our public filings to better explain our business activities, our performance and how it relates to serving clients. • Reorganized financial disclosures to consolidate related topics, to remove repetitive information and to improve the overall clarity of the disclosure.
	Committee Governance	
29.	Firmwide Client and Business Standards Committee (CBSC)	• Established the Firmwide CBSC in January 2011 which puts clients and our reputation at the center of the firm's decision-making • Established Committee Operating Group (COG) to assist the Firmwide CBSC with committee oversight
30.	Divisional and Regional CBSCs	• Established 5 divisional CBSCs and 2 regional CBSCs • Ongoing reporting to Firmwide CBSC by new Divisional CBSCs and Regional CBSCs

Recommen-dation	Description	Select Highlights
31.	Suitability and New Activity	• Established the Firmwide Suitability Committee, which acts as a central point for review and approval of suitability determinations • Established the Firmwide New Activity Committee which, in addition to addressing whether we can conduct the activity from a legal and operational perspective, also considers whether we should engage from a reputational perspective.
32.	Event Reviews	• A number of event reviews have been conducted
33.	Enhancements to Committee Procedures	• COG published committee policy governing all committees involved in the management of the firm, which promulgated standardized committee charters, required committees to keep minutes and mandated uniform statements of action for transaction review committees • Over 160 committee charters brought into line with the new committee policy, including making each committee responsible for reputational risk management as part of its mandate • COG conducted two iterations of the annual committee self-assessment, mandatory for all committees involved in the management of the firm
	Training and Professional Development	
34.	Focus leadership on reinforcing the firm's culture and on strengthening client relationships and reputational excellence	• Enhanced the content of our orientation and promotion programs, including our firmwide leadership and management curriculum, to reinforce the BSC's key messages, including the importance of client relationships and reputational excellence.
35.	The Chairman's Forum	• 23 sessions of the Chairman's Forum for partners and managing directors completed • Chairman's Forum for VPs in progress
36.	Emphasize risk management and reputational judgment / compliance in annual performance review	• Annual performance review process updated to place renewed focus on reputational matters
37.	Design and implement training and professional development programs	• In addition to creating over 30 new BSC training programs, we updated our existing firmwide training curriculum to include key BSC programs and content
38.	Emphasize leadership, culture and values (LCV) in partner and managing director promotion process	• Leadership, culture and values reemphasized in partner and managing director promotion process
39.	Update and strengthen the Goldman Sachs Code of Business Conduct and Ethics	• Code of Business Conduct and Ethics updated and included on GS website • Online training program developed and rolled out to all employees

Source: Goldman Sachs, "Business Standards Committee Impact Report," May 2013, http://www.goldmansachs.com/a/pgs/bsc/files/GS-BSC-Impact-Report-May-2013-II.pdf, accessed January 2014.

Exhibit 14a Global M&A League Tables, 2007

Worldwide Announced (AD1)

	1/1/2007 - 12/31/2007				1/1/2006 - 12/31/2006		
Financial Advisor	Rank Value US$m	Rank	Mkt. Share	No. Deals	Rank Value US$m	Rank	% Chg. in Rank Val
Goldman Sachs & Co	1,419,044.1	1	31.7	492	1,081,981.3	1	31.2
Morgan Stanley	1,341,879.0	2	29.9	431	975,696.5	2	37.5
Citi	1,152,231.7	3	25.7	539	896,887.8	3	28.5
JP Morgan	1,077,145.2	4	24.0	433	834,185.2	4	29.1
UBS	1,023,725.7	5	22.8	463	655,779.1	6	56.1
Credit Suisse	876,380.6	6	19.6	390	642,720.6	7	36.4
Deutsche Bank AG	868,646.5	7	19.4	289	484,382.1	9	79.3
Merrill Lynch	787,793.8	8	17.6	355	692,800.0	5	13.7
Lehman Brothers	767,191.1	9	17.1	278	556,850.5	8	37.8
Rothschild	566,091.5	10	12.6	390	370,899.1	11	52.6
Lazard	529,763.2	11	11.8	263	407,479.6	10	30.0
BNP Paribas SA	384,596.4	12	8.6	199	254,574.8	13	51.1
HSBC Holdings PLC	314,865.8	13	7.0	110	213,787.3	15	47.3
ABN AMRO	270,890.1	14	6.0	206	236,954.5	14	14.3
Macquarie Bank	264,241.6	15	5.9	107	109,111.1	23	142.2
Greenhill & Co, LLC	238,690.0	16	5.3	34	71,243.8	26	235.0
Societe Generale	231,764.1	17	5.2	73	157,223.3	18	47.4
Gresham Partners	214,239.5	18	4.8	27	2,190.7	147	9,679.5
Banc of America Securities LLC	199,813.6	19	4.5	99	263,953.2	12	-24.3
RBC Capital Markets	179,889.0	20	4.0	152	60,385.8	31	197.9
Santander Global Banking	164,645.8	21	3.7	40	81,395.9	25	102.3
Royal Bank of Scotland Group	146,208.1	22	3.3	3	-	-	-
CIBC World Markets Inc	143,467.4	23	3.2	99	69,368.1	28	106.8
Mediobanca	119,149.0	24	2.7	65	52,595.1	33	126.5
Evercore Partners	117,523.7	25	2.6	44	204,707.4	16	-42.6
Subtotal without Financial Advisor	628,496.7	-	14.0	33,108	460,630.0	-	36.4
Subtotal with Financial Advisor	3,853,913.7	-	86.0	9,383	3,149,473.4	-	22.4
Industry Total	4,482,410.4	-	100.0	42,491	3,610,103.4	-	24.2

Source: Company documents via Thomson Reuters, year-end 2007, http://dmi.thomsonreuters.com, accessed April 2014.

Exhibit 14b Global M&A League Tables, 2013

Worldwide Announced (AD1) Jan 1 - Dec 31

	Rank Value per Advisor (US$m)						# of Deals per Advisor			
Financial Advisor	*2013 Rank*	*2012 Rank*	*Rank Value US$m*	*Market Sh (%)*	*Market Share Ch.*		*# of Deals*	*Market Sh ($)*	*Change in # of Deals*	
Goldman Sachs & Co	1	1	624,585.4	26.1	-3.0	▼	396	1.1	-36	▼
JP Morgan	2	3	562,886.1	23.5	3.1	▲	298	0.8	+8	▲
Morgan Stanley	3	2	531,974.1	22.2	1.3	▲	322	0.9	-64	▼
Bank of America Merrill Lynch	4	8	528,924.5	22.1	9.2	▲	231	0.6	+5	▲
Barclays	5	4	361,791.3	15.1	-4.3	▼	208	0.6	-76	▼
UBS	6	10	310,424.4	13.0	4.4	▲	195	0.5	+9	▲
Citi	7	5	258,859.5	10.8	-5.6	▼	227	0.6	-24	▼
Deutsche Bank	8	6	257,915.9	10.8	-4.4	▼	199	0.5	-49	▼
Credit Suisse	9	7	213,784.5	8.9	-6.1	▼	245	0.7	-18	▼
Lazard	10	11	194,002.8	8.1	-0.1	▼	254	0.7	-18	▼
Guggenheim Securities LLC	11	71	143,276.1	6.0	5.7	▲	15	0.0	+4	▲
Rothschild	12	9	137,218.3	5.7	-3.3	▼	249	0.7	-47	▼
Paul J Taubman	13	-	130,100.0	5.4	5.4	▲	1	0.0	+1	▲
Centerview Partners LLC	14	17	105,216.9	4.4	0.4	▲	33	0.1	+7	▲
Moelis & Co	15	18	101,391.5	4.2	0.6	▲	109	0.3	-3	▼
BNP Paribas SA	16	13	98,359.2	4.1	-1.7	▼	122	0.3	+4	▲
Evercore Partners	17	14	86,839.8	3.6	-2.1	▼	121	0.3	-2	▼
RBC Capital Markets	18	15	79,753.3	3.3	-1.2	▼	140	0.4	-58	▼
Wells Fargo & Co	19	30	62,855.2	2.6	1.1	▲	55	0.1	-7	▼
Jefferies LLC	20	19	53,728.4	2.2	-1.1	▼	115	0.3	-21	▼
HSBC Holdings PLC	21	16	50,942.4	2.1	-2.0	▼	76	0.2	-19	▼
LionTree Advisors LLC	22	80	48,253.9	2.0	1.7	▲	7	0.0	+4	▲
Macquarie Group	23	28	46,390.9	1.9	0.2	▲	121	0.3	+4	▲
Nomura	24	12	42,690.5	1.8	-5.0	▼	138	0.4	-95	▼
Banco BTG Pactual SA	25	45	35,860.5	1.5	0.6	▲	57	0.2	-33	▼
Industry Total			**2,393,298.1**	**100.0**			**36,819**		-2,960	
Industry % Change from Same Period Last Year			*-5.9%*			▼	*-7.4%*			▼
Industry % Change from Last Quarter			*-8.0%*			▼	*-1.1%*			▼

Source: Company documents via Thomson Reuters, year-end 2013, http://dmi.thomsonreuters.com, accessed April 2014.

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