



Report of the Business Standards Committee

January 2011

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.

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ABBREVIATIONS

BPC	Firmwide Business Practices Committee
CBSC	Firmwide Client and Business Standards Committee
CRBSG	Conflicts Resolution and Business Selection Group
EMEA	Europe, Middle East and Africa
EMD	Extended Managing Director
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GIR	Global Investment Research
GSAM	Goldman Sachs Asset Management
IBD	Investment Banking Division
ICAAP	Internal Capital Adequacy Assessment Process
IPO	Initial Public Offering
IRBC	Internal Risk Based Capital
IMD	Investment Management Division
MBD	Merchant Banking Division
MD&A	Management Discussion and Analysis
MPE	Maximum Probable Exposure
PMD	Participating Managing Director (Partner)
PWM	Private Wealth Management
RTL	Restricted Trading List
SEC	U.S. Securities and Exchange Commission
SPC	Structured Products Committee
TCM	Transaction Class Matrix

EXECUTIVE SUMMARY

A. OVERVIEW

The financial crisis has had a profound impact on thousands of financial institutions and businesses, and on millions of households. Its aftermath has been a time of reflection and reform.

For Goldman Sachs, this has been a challenging period. Our industry, and our firm in particular, have been subjected to considerable scrutiny. Our senior management and Board of Directors recognized this as an opportunity to engage in a thorough self-assessment and to consider how we can and should improve.

At our Annual Meeting of Shareholders on May 7, 2010, our Chairman and Chief Executive Officer, Lloyd C. Blankfein, announced the firm's intention to create the Business Standards Committee to conduct an extensive review of our business standards and practices. The Committee's mandate was to ensure that the firm's business standards and practices are of the highest quality; that they meet or exceed the expectations of our clients, other stakeholders and regulators; and that they contribute to overall financial stability and economic opportunity. The Committee has operated with oversight by the Board of Directors, which established a four member Board Committee to provide additional focus and guidance. In addition, the firm engaged two consulting firms to provide independent advice to the Business Standards Committee.

The scope and intensity of the Committee's eight month review have been significant, encompassing every major business, region and activity of the firm. We made 39 recommendations for change spanning client service, conflicts and business selection, structured products, transparency and disclosure, committee governance, training and professional development and employee evaluation and incentives. These recommendations have been approved by the firm's senior management and Board of Directors and implementation has already begun.

The firm's culture has been the cornerstone of our performance for decades. We believe the recommendations of the Committee will strengthen the firm's culture in an increasingly complex

environment. We must renew our commitment to our Business Principles – and above all, to client service and a constant focus on the reputational consequences of every action we take. In particular, our approach must be: not just “can we” undertake a given business activity, but “should we.”

We believe the recommendations contained in this report represent a fundamental re-commitment by Goldman Sachs: a re-commitment to our clients and the primacy of their interests; a re-commitment to reputational excellence associated with everything the firm does; a re-commitment to transparency of our business performance and risk management practices; a re-commitment to strong, accountable processes that reemphasize the importance of appropriate behavior and doing the right thing; and a re-commitment to making the firm a better institution.

We expect that the work and recommendations of the Committee will strengthen our culture and increase our focus on serving our clients, while recognizing our responsibilities to the financial markets, our stakeholders, regulators and the public at large.

B. THE GOLDMAN SACHS BUSINESS PRINCIPLES AND OUR COMMITMENT TO CLIENTS

The Committee began its work by evaluating the relevance of the firm’s 14 Business Principles to our business today. Our Business Principles were codified 30 years ago and define our fundamental expectations for the way we should interact with our clients, manage our business and attract, retain and motivate our employees. The Committee concluded that the firm’s Business Principles are as relevant today as ever. However, our business has evolved and become more complex in recent years, presenting challenges that require us both to strengthen certain core client service values for all interactions with clients and to describe more clearly our role-specific client responsibilities.

The core client service values of integrity, fair dealing, transparency, professional excellence, confidentiality, clarity and respect are embedded in our Business Principles and express how we intend to conduct ourselves in each and every client interaction.

In terms of our role-specific client responsibilities, across our various businesses we act in many capacities, including as an advisor, fiduciary, market maker and underwriter. Each of these capacities requires that we fulfill specific responsibilities to our clients. We must be clear to ourselves and to our clients about the capacity in which we are acting and the responsibilities we have assumed.

We believe these core client service values and role-specific client responsibilities are fundamental to all of the Committee's recommendations.

C. THE BUSINESS STANDARDS COMMITTEE WORKING GROUPS

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.

D. SUMMARY OF RECOMMENDATIONS

The Committee made 39 recommendations to improve the firm's business standards and practices. Several key recommendations are presented below, grouped into broad priorities for improvement.

Strengthening Client Relationships. Our clients must be at the heart of the firm's decision-making, thinking and committee governance, both formally and informally. Key recommendations include:

- Establishing a new Client and Business Standards Committee to place our client franchise at the center of our decision-making processes.
- Detailing the firm's specific professional responsibilities to our clients which depend on the nature of the relationship, role and the specific activity we are asked to undertake. We act as an advisor, fiduciary, market maker and underwriter across various businesses and it is important to articulate clearly both to our people and to clients the specific responsibilities we assume in each case.
- Designing and implementing a comprehensive firmwide program to strengthen client interactions and relationships and to enhance our client franchise.
- Strengthening evaluation criteria for all employees in client-facing roles to achieve an appropriate long-term, client-focused orientation.

Strengthening Reputational Excellence. Goldman Sachs has one reputation. It can be affected by any number of decisions and activities across the firm. Every employee has an equal obligation to raise issues or concerns, no matter how small, to protect the firm's reputation. We must ensure that our focus on our reputation is as grounded, consistent and pervasive as our focus on commercial success. Key recommendations include:

- Implementing a comprehensive training and professional development program on our Business Principles, core client service values and role-specific client responsibilities.
- Strengthening our standards for the identification, review, approval and documentation of structured products and the framework for evaluating their suitability for various client segments.
- Implementing enhanced disclosure and origination standards for each business unit that is responsible for originating structured product securities.

- Moving certain underwriting and origination activities from the Securities Division to the Financing Group in the Investment Banking Division, and implementing enhanced and consistent policies and procedures on disclosure, approval processes and other controls.
- Providing plain language explanations to our clients about the firm’s conflicts resolution and business selection processes, including describing activities we may continue to conduct while we are advising or financing a particular client.
- Updating and strengthening the Code of Business Conduct and Ethics and requiring employees to certify their compliance.

Strengthening Committee Governance. The firm’s committee governance structure must encourage ownership and accountability for client service, all business activities and reputational risk management and be oriented to action and decision-making. Key recommendations include:

- Restructuring the firm’s existing committee governance:
 - Establishing a new Client and Business Standards Committee to place our client franchise at the center of our decision-making processes and to reflect the important interrelationships between clients, business practices and reputational risk management.
 - Establishing corresponding divisional and regional Client and Business Standards Committees to enhance accountability for all our business activities.
 - Establishing a Firmwide New Activity Committee to consolidate and strengthen existing processes for approving new products and activities and to assess the important question of not just “can we” undertake a given business opportunity, but “should we.”
 - Establishing a Firmwide Suitability Committee to oversee standard setting for client, product and transaction suitability across the firm.
- Forming an Event Review Group to perform timely, focused reviews of incidents or other matters of concern arising from the firm’s day-to-day business activities or in our industry more broadly.
- Establishing and maintaining a formal policy framework for committee best practices, processes and procedures governing all aspects of committee operations, including charters, regular meeting agendas, minutes and statements of action.

Enhancing Transparency of Communication and Disclosure. We recognize the need to better explain our business activities and how these activities relate to our performance and to our mission to serve clients. Key recommendations to improve and increase our financial disclosure include:

- Reorganizing our revenue reporting from three existing segments into four to provide greater clarity and visibility on the importance of our client franchise activities and client facilitation to our revenues.
- Providing a simplified balance sheet showing assets by business unit / activity as well as the firm's excess liquidity position.
- Describing in greater detail our overall risk management structure, culture and processes.
- Providing additional disclosure related to credit risk, operational risk and capital adequacy.

Strengthening Training and Professional Development. We must provide training and professional development to strengthen our culture, reinforce our core values and implement and embed the recommendations in this report into our daily practices. Key recommendations include:

- Creating a global program, led by our Chairman and CEO, to explain the Committee's recommendations, underline the importance of client service, our business standards and reputational risk management and reinforce the key attributes of our culture to the firm's 2,200 participating and extended managing directors. The "Chairman's Forum on Clients and Business Standards" will represent a large investment of time of our senior management team over the course of 2011.
- Implementing training and professional development programs tailored for each division to clarify the different roles their professionals have with clients and the client-specific responsibilities associated with each of those roles.
- Increasing emphasis on evaluation criteria relating to reputational risk management in the firm's annual performance review and compensation and other incentive and recognition processes.
- Increasing the focus on leadership, culture and values as part of the employee annual promotion, performance review and compensation processes.

E. IMPLEMENTATION OF THE RECOMMENDATIONS

Senior management and the Board of Directors are committed to the implementation of the recommendations and expect our employees to dedicate themselves to this initiative. Senior management and the Board of Directors will receive periodic progress reports on implementation of the Committee's recommendations.

Extensive training and professional development efforts that influence behavior over time are critical to the success of the overall implementation effort. In addition, the enhancements and changes arising from the Committee's recommendations will be documented and reflected in the policies, practices and procedures that govern how we conduct our business.

The Committee recognizes that the impact of its work will be measured by the success of the implementation effort and, ultimately, how well the employees of Goldman Sachs act on the recommendations and embrace their spirit.

SECTION I: STRUCTURE OF THE REPORT

Sections II through VII of this report present the recommendations of the six working groups established by the Committee.

The recommendations of each working group follow a common format:

- Part A: Introduction and Overview, the context and setting in which the recommendations were developed.
- Part B: Guiding Principles, the broad objectives that the recommendations of the working group are intended to achieve.
- Part C: Discussion and Recommendations, the rationale and recommendations of each working group.

Each recommendation aims to strengthen our business standards and practices and is stated in terms of one or more broad priorities for improvement:

- Strengthening client relationships
- Strengthening reputational excellence
- Strengthening committee governance
- Enhancing transparency of communication and disclosure
- Strengthening training and professional development

The two objectives that underlie a majority of the recommendations are strengthening client relationships and reputational excellence.

Section VIII describes the comprehensive and rigorous implementation plan for the recommendations. The implementation plan establishes a time line, details a framework of internal control emphasizing ownership and accountability and puts in place procedures to ensure follow up and full documentation.

SECTION II: CLIENT RELATIONSHIPS AND RESPONSIBILITIES

A. INTRODUCTION AND OVERVIEW

The cornerstone of the Business Standards Committee's recommendations is the relationship between Goldman Sachs and its clients and a deeply rooted belief that if our clients are successful, our own success will follow. With this in mind, we have sought to understand and address client concerns, clarify our responsibilities to clients and recommend ways to strengthen our client relationships.

The Committee recognizes that we need to clearly articulate standards and expectations for client service and reputational excellence in order to strengthen client relationships. We have established three core components that describe how we interact with clients:

- Guiding principles for client relationships and responsibilities that complement our Business Principles and respond to current financial market realities.
- Client service values that apply to all client relationships. These values are embedded in the firm's Business Principles.
- Role-Specific Client Responsibilities that articulate the basic responsibilities we must fulfill when acting in different capacities for our clients.

Taken together, these components constitute the foundation of our commitment to client service and reputational excellence.

Client Survey: Background and Methodology

To better understand how our clients view Goldman Sachs, we retained an independent consultant to conduct non-attributable, in-depth, in-person discussions with senior management of more than 200 of our clients worldwide. Our consultant reported our clients' views in such a way that no Goldman Sachs employee knows what any individual client said during the interviews.

We selected the sample of clients from our three main businesses – Investment Banking, Investment Management and Securities – and all of our geographic regions. Our sample

comprised, in roughly equal proportion, relationships we would characterize as strong, moderate, and weak.

The client interviews were conducted over a four month period without the presence or participation of Goldman Sachs employees so that clients would be more likely to offer critical feedback, concerns and perceptions.

The consultant used a structured but open-ended interview format that not only allowed clients to provide their views on the specific topics posed, but also invited them to share any other thoughts on Goldman Sachs. Specific topics covered included:

- How well Goldman Sachs serves the interests of its clients and how well we communicate our role when serving our clients;
- The client's view of its coverage team and its view of Goldman Sachs as an institution;
- Goldman Sachs' risk management capabilities;
- Goldman Sachs' business model;
- Goldman Sachs' approach to legal and regulatory compliance;
- Goldman Sachs' effectiveness at communicating its Business Principles;
- Goldman Sachs' research capabilities;
- Goldman Sachs' corporate citizenship activities;
- Other issues that Goldman Sachs senior management should be aware of or should consider; and
- Goldman Sachs' overall strengths and weaknesses, as compared to its competitors.

The consultant presented its findings and analysis to the Business Standards Committee, senior management, the Board Committee and the Board of Directors. We used these meetings to ask clarifying questions, identify and analyze the key themes and issues that emerged from the client interviews and to discuss and develop recommendations. In addition, the senior leadership of each division reviewed feedback relating specifically to their businesses.

Client Survey Summary

The client survey found that our clients view Goldman Sachs as a firm with highly talented people, strong execution and risk management capabilities and a well-respected brand. Clients

recognized that Goldman Sachs' culture of teamwork enables the firm to work seamlessly across products and regions to execute difficult or multi-faceted transactions on their behalf. Clients also said they have a high level of confidence in the individuals at Goldman Sachs who serve them directly and whom they know well.

More importantly, the client survey included critical feedback. Clients raised concerns about whether the firm has remained true to its traditional values and Business Principles given changes to the firm's size, business mix and perceptions about the role of proprietary trading. Clients said that, in some circumstances, the firm weighs its interests and short-term incentives too heavily. These concerns pointed to the need to strengthen client relationships which, in turn, will strengthen trust. Clients recommended that we communicate our core values more clearly, both through individual interactions and through corporate communications. Clients also said they would like us to communicate more clearly about our roles and responsibilities in particular transactions.

B. GUIDING PRINCIPLES

These principles guided the Committee in making our recommendations:

- Client-Focused Approach. The firm will strengthen its focus on clients and client objectives. We must make decisions over time that result in our clients recognizing our commitment to serving their needs.
- Long-Term Orientation. The firm will recommit to the importance and value of building and sustaining a long-term client franchise. Goldman Sachs must place even greater emphasis in our incentive systems to support building long-term client relationships.
- Earn Clients' Respect and Trust. To earn the respect and trust of clients, we must attract, develop and retain employees who demonstrate character, act with the highest integrity and consistently provide clients with accurate, timely and clear communications.

C. DISCUSSION AND RECOMMENDATIONS

The Committee is making the following recommendations to strengthen client relationships and responsibilities:

1. The Business Standards Committee recommends that the firm reemphasize the client service values listed below. These values are embedded in our Business Principles and

express how we intend to conduct ourselves in each and every client interaction. This recommendation reflects our objective of strengthening client relationships.

- **Integrity:** Adhering to the highest ethical standards.
- **Fair Dealing:** Pursuing a long-term and balanced approach that builds clients' trust.
- **Confidentiality:** Protecting confidential information.
- **Clarity:** Providing clear, open and direct communication.
- **Transparency:** Informing our clients so that our role in any transaction is understood by them.
- **Respect:** Being respectful of our clients, other stakeholders and broader constituencies.
- **Professional Excellence:** Consistently providing high quality service, responsiveness, thoughtful advice and outstanding execution.

2. The Business Standards Committee recommends that the firm implement the framework for Role-Specific Client Responsibilities to communicate with clients about our different roles and responsibilities and as a benchmark for training and professional development for employees. Above all, we must be clear to ourselves and to our clients about the capacity in which we are acting and the responsibilities we have assumed. This recommendation reflects our objective to strengthen client relationships.

In broad terms, our clients ask the firm to act in the capacity of advisor, fiduciary, market maker and underwriter, and may require us to act in multiple capacities in our overall relationship. We have developed a “Role-Specific Client Responsibilities” matrix, provided on the following page, to briefly describe these roles and our responsibilities to clients. The matrix is illustrative and does not capture every possible client interaction, since our client service responsibilities will differ depending on the nature of the transaction, the role we are asked to play in any given situation and the applicable law of the relevant jurisdiction. We must be clear to ourselves and to our clients about the capacity in which we are acting and the responsibilities we have assumed.

Goldman Sachs Role-Specific Client Responsibilities

Relationship With Client: Advisor		
Role	Activities	Basic Responsibilities
Banking Advisor	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Advise on asset allocation, portfolio construction and manager or securities selection May invest on a discretionary basis 	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> Make markets by committing capital Provide investing ideas Make our inventory available or add to our inventory 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Execute transactions for the account of clients Provide investing ideas Provide advice incidental to acting as broker 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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

While most of the roles, activities and responsibilities highlighted in this matrix are straight forward, the terms “market maker” and “underwriter” require some explanation.

Market making refers to our secondary sales and trading activities. We can act as an agent for buyers and sellers by executing their orders in the market or act as a principal by supplying liquidity directly to our clients. We do this regardless of market conditions and our view of the market. Our liquidity obligations in certain markets can also be explicit and obligatory – when, for example, we act as a Primary Dealer in government securities markets or as a New York Stock Exchange Designated Market Maker.

Our market making responsibilities can also be implicit. In the credit and mortgage markets, for example, our clients expect us to be willing to sell positions to them as a principal or to be willing to buy positions from them. Market making involves risk, and as a result, market makers engage in risk management activities such as hedging and managing inventory in both cash and derivative instruments.

Market makers provide liquidity and play a critical role in price discovery. They contribute to the overall efficiency of the capital markets, facilitating capital raising for corporations and governments and allowing money managers to better manage their portfolios and generate returns.

The role of an underwriter differs from that of a market maker. An underwriter of financial instruments works with the issuer in connection with offering financial instruments to investors. In this context, securities laws effectively impose a gatekeeper role on Goldman Sachs: as an underwriter, the firm is expected to assist the issuer in providing an offering document to investors that discloses all material information relevant to the offering. The purchaser of securities then evaluates whether they are worthy of investment based on his or her own view and analysis of the security in light of expectations about the future prospects of a company, financial instrument or market.

3. The Business Standards Committee recommends that the firm increase its emphasis on client service and client relationships in our annual performance review and other incentive processes. Among other things, the performance review system will seek to assess how well our people represent the Goldman Sachs client franchise and how well they build long-term client relationships. This recommendation reflects our objective of strengthening client relationships.

4. The Business Standards Committee recommends that the new Client and Business Standards Committee design and implement a comprehensive firmwide program to strengthen client interactions and relationships to enhance our client franchise. This recommendation reflects our objectives of strengthening client relationships and committee governance.
5. The Business Standards Committee recommends that the firm implement a comprehensive training and professional development program on the firm's Business Principles, client service values and the Role-Specific Client Responsibilities. Each division will tailor its program to emphasize its different roles and responsibilities to clients. This recommendation reflects our objectives of strengthening client relationships, reputational excellence and training and professional development.
6. The Business Standards Committee recommends that the leaders of each division play a critical role in the design and execution of a multi-faceted communication program to introduce the Committee's recommendations to clients. This recommendation reflects our objectives of strengthening client relationships and enhancing transparency of communication and disclosure.

SECTION III: CONFLICTS OF INTEREST

A. INTRODUCTION AND OVERVIEW

Conflicts of interest and the firm's approach to dealing with them are fundamental to our client relationships, our reputation and our long-term success. We must earn the trust of our clients by consistently fulfilling the responsibilities we undertake when we assume a role on their behalf. We also recognize the concerns of clients, other stakeholders, legislators, regulators, market participants and the general public over the potential for conflicts of interest in the financial services industry and at Goldman Sachs.

The Committee undertook a broad examination of the firm's infrastructure, policies and procedures in the area of conflicts resolution. Following this, we developed guiding principles and recommendations that will enhance our conflicts resolution and business selection practices. In the long term we believe that any constraints these enhancements may impose on the firm will be outweighed by the benefits derived from building client trust and strengthening the firm's reputation.

Goldman Sachs is a full-service, global investment bank. Many of our clients interact with the firm in several of our businesses. For example, working with entirely separate areas of the firm, a corporate client may issue securities through us in connection with an acquisition in which we acted as their financial advisor. That same client may engage in a commodity-related hedging program related or entirely unrelated to the acquisition, and, through its pension fund, may be an asset management client.

We are most effective in serving our clients when we are able to meet the full range of their financing, risk management, liquidity and advisory needs. Acting in these roles for multiple clients simultaneously, however, we necessarily encounter potential conflicts and business selection issues. It is critical for our business to have a comprehensive conflict management and business selection process that is overseen by senior, experienced people and embedded in core decision-making processes of the firm.

The term "conflict of interest" does not have a universally accepted meaning, and conflicts can arise in many forms within a business or between businesses. The responsibility for identifying

potential conflicts, as well as complying with the firm's policies and procedures, is shared by the entire firm. The firm has invested considerable time and resources over many years in its conflicts resolution infrastructure, policies and procedures.

We have a multilayered approach to resolving conflicts and addressing reputational risk. The firm's senior management and divisional leadership oversee policies related to conflicts resolution. The firm's divisional leadership, a Conflicts Resolution and Business Selection Group (CRBSG), the Legal and Compliance Departments, the Firmwide Business Practices Committee (BPC) and other internal committees all play roles in the formulation of policies, standards and principles and assist in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

The firm's Legal, Compliance and Internal Audit Departments help the firm's businesses operate in accordance with applicable laws and regulations and the firm's policies and procedures. The Compliance Department monitors the mechanisms – such as information barriers between business units – that are designed to ensure appropriate use and protection of confidential information, including having physical and other information barriers between business units.

At the transaction level, various people and groups have roles. As a general matter, prior to businesses accepting mandates, or making new loans or investments, the CRBSG reviews the potential transaction. It reviews all financing and advisory assignments in the Investment Banking Division (IBD) and lending, investing and other activities by the Merchant Banking Division (MBD), the Securities Division and segments of the Investment Management Division (IMD). Various transaction oversight committees, such as the Capital, Commitments, Investment, Suitability and Structured Products Committees, also review new underwritings, loans, investments and structured products. These committees work with internal and external lawyers and the Compliance Department to evaluate and address any actual or potential conflicts.

B. GUIDING PRINCIPLES

The Committee observed the following principles in making its recommendations relating to conflicts:

- Ability to Perform. Prior to accepting a role with a client, we will exercise care to ensure that

we are able to fulfill our responsibilities to that client. Having assumed a role, we will not undertake activities or accept a new mandate that would prevent us from fulfilling those responsibilities.

- Long-Term Focus. In resolving potential conflicts and making business selection decisions, we will pursue a long-term and balanced approach that builds clients' trust.
- Clarity Regarding Our Responsibilities. Our clients ask the firm to provide various services. We will be clear with our clients about the specific responsibilities we are assuming. We will also be clear about what other activities we may continue to perform while we are advising or financing a particular client.

C. DISCUSSION AND RECOMMENDATIONS

We took the following steps to identify areas of focus:

- Reviewing the various ways in which a role we play with one client may intersect with the role we might play on behalf of another client or with the firm's own interests;
- Conducting an extensive survey of business and functional leaders within the firm;
- Reviewing the results of the client survey;
- Analyzing relevant judicial decisions and legislative material; and
- Considering forthcoming changes to the regulatory framework for our industry.

As a result of this process, we identified the following areas for in-depth review and enhancement:

- Information barriers;
- Origination and underwriting activities across the firm;
- Written communications about securities while the firm is contemporaneously underwriting or advising the issuer of the securities;
- Transactions where the firm may have multiple roles;
- Fund and firm balance sheet investment and lending activities;
- Documentation and conflicts policies, processes and principles; and
- Client communications.

C-1. Information Barriers

In accordance with industry practices, Goldman Sachs maintains information barriers (Information Barriers or Walls) to prevent the unauthorized disclosure of confidential information by “private side” personnel (predominantly in IBD) to “public side” personnel in the Securities Division and IMD.¹ The Compliance Department maintains the policies and procedures governing Information Barriers and monitors the communication of confidential information within the firm. It also conducts surveillance of trading activities during periods in which the firm possesses material non-public information and trains employees on Information Barrier policies and procedures. Consistent with applicable law, Information Barriers enable the firm to continue to conduct sales and trading activities on the public side of the firm while the private side has material, non-public information.

The Compliance Department may permit private side employees to communicate material, non-public information to public side employees, pursuant to established record-keeping and surveillance procedures to help facilitate investment banking transactions that require market judgment. In our equity capital markets business, for example, a client who owns a substantial block of stock may ask us to buy the stock, which we would then resell to other clients. In these circumstances, we would typically seek the judgment of a small number of professionals from the Securities Division regarding the potential market appetite for the stock in order to price it properly. Once wall crossed, these employees cannot influence, make recommendations or direct trading in the securities of the issuer on which they have received non-public information.

The Business Standards Committee and the BPC undertook a systematic review of the firm’s wall crossing procedures with a view to reducing the number and duration of wall crosses. The following enhancements were implemented during the summer of 2010 and resulted in a reduction in the number and duration of wall crosses.

7. With respect to Information Barriers and wall crosses, requests by IBD to initiate a wall cross for a Securities Division employee must be approved by a participating managing director (PMD) or a senior extended managing director (EMD) in IBD who is supervising the relevant transaction or project, as well as one of a small number of PMDs or senior EMDs in the Securities Division, designated by divisional management. One of the heads of the Securities Division or his designee must approve requests when more than

¹ Goldman Sachs Asset Management is separated from other divisions of the firm both physically and pursuant to policies and procedures that have been developed in accordance with applicable regulations.

five Securities Division employees are needed to cross the Wall in connection with any particular transaction or project. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.

The firm is also enhancing training and professional development programs and putting in place additional surveillance of Information Barriers.

C-2. Origination and Underwriting Activities

IBD personnel have primary responsibility for the execution of underwritings of corporate, sovereign and municipal debt and corporate equity securities. The Securities Division has historically executed some transactions that involve the issuance, creation or repackaging of financial instruments.

8. The Business Standards Committee recommends that certain underwriting and origination activities be moved from the Securities Division to the Financing Group within IBD, including certain activities related to mortgage-backed and asset-backed securitization, emerging markets debt and money market instruments such as commercial paper. Business units of the Securities Division that continue to conduct origination activities will have policies and standards, approval processes, disclosure requirements and oversight that are consistent with those that apply to all origination activities in IBD. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.

C-3. Written Communications During Underwriting and Advisory Assignments

In connection with an underwriting or an advisory engagement involving a material strategic transaction, the firm operates a Restricted Trading List Policy (RTL Policy). This policy may impose restrictions on sales communications, trading and research to mitigate legal, regulatory, or conflict issues and to eliminate any appearance of the improper use of material non-public information. The RTL Policy permits the publication of research and the continuation of market making only to the extent permitted by applicable law.

Our clients expect our salespeople and traders to express their independent views on markets and companies and to develop trading ideas. These activities occur on the public side of the

firm's Information Barriers. The RTL Policy restricts written client communications² regarding an underwritten security from the announcement of that offering until the offering is priced. Moreover, in connection with U.S. initial public offerings (IPOs), the policy further restricts written communications until 25 days after pricing. Subject to guidelines, the policy generally permits written communications by sales and trading personnel during a pending material strategic transaction on which the firm is advising a client, once that transaction is in the public domain.

We reviewed the RTL Policy to determine how we could reduce the appearance of conflicts of interest in the firm's sales and trading activities during and immediately after underwriting securities and advising clients, while preserving the firm's ability to appropriately serve its investing clients.

9. The Business Standards Committee recommends that the firm's existing policies regarding written communications during underwriting and advisory assignments be supplemented to restrict Securities Division and Private Wealth Management (PWM) personnel from disseminating broadly to clients written sales communications either (i) recommending an investment or transaction, or (ii) expressing a view³ regarding the issuer or client, its securities or its other financial instruments, or regarding other transaction parties and their securities or their other instruments as follows:
- For offerings of equity or equity-linked securities or high yield debt offerings or loan syndications,⁴ the restriction would apply from the pricing date until 30 days thereafter.
 - For material strategic transactions in which Goldman Sachs is advising a party, the restriction would apply from public announcement through closing of the transaction.

² This discussion does not address written communications by the firm's Global Investment Research Division ("GIR"). There are regulations and well-established firm policies that govern the publication of research by the firm's independent Global Investment Research Division in connection with an offering being underwritten by Goldman Sachs or a material strategic transaction in which the firm is advising a client. To the extent permitted by law and policy, GIR may continue to publish research.

³ We will continue to permit written communications with views that are consistent with recently-published GIR research or that attaches, summarizes or references that research.

⁴ Offerings and syndications of investment grade debt and offerings and trading of asset-backed and mortgage-backed securities are generally excluded because of their frequency and because they generally are not material to the issuer or originator of the underlying assets, in each case unless otherwise determined by the Capital Committee or a subcommittee thereof. Municipal and not-for-profit issuers will be treated as issuers of high yield corporate debt.

This recommendation reflects our objectives of strengthening client relationships and reputational excellence.

Securities Division or PWM personnel may request that the Legal or Compliance Departments grant an exception, subject to applicable regulations, if there is a fundamental change in the business or prospects of the issuer or other relevant party. In addition, if the time between the announcement and the closing date for a material strategic transaction becomes longer than is standard for transactions of this type, Securities Division and PWM personnel may also request an exception from the Legal or Compliance Departments, subject to applicable regulations.

C-4. Multiple Roles in a Particular Transaction

The firm often plays multiple roles in a specific transaction. Examples include the following:

- The firm provides financing for an acquisition by a firm-managed fund;
- The firm executes transactions, such as derivatives or purchases of loan portfolios, with an IBD advisory client;
- The firm underwrites securities of an issuer in which the firm or a firm-managed fund is an existing lender or investor; and
- The firm provides financing (staple financing) to potential buyers of an asset when IBD is advising the seller of that asset.

The CRBSG and, in most cases, one of the firm's transaction oversight committees review these transactions in advance because of the potential for actual or perceived conflict between the firm and a client or fund. The firm may be able to address potential conflicts by providing disclosure to its clients, obtaining appropriate consents, relying on Information Barriers, carefully defining its role and / or requesting that the client engage a co-advisor. The Committee has reviewed the firm's policies and practices governing these activities and makes the following recommendations.

10. To strengthen client relationships and reputational excellence, the Business Standards Committee recommends as follows:
 - (i) Goldman Sachs will not be the sole financing source for acquisitions by MBD private funds, other firm-managed private funds or portfolio companies controlled by those

funds,⁵ except in special circumstances with the approval of senior management or an appropriate committee of the firm.

- (ii) Goldman Sachs will carefully review requests to provide financing to competing bidders when a MBD fund or other firm-managed private fund is pursuing an acquisition as a bidder. Senior management or an appropriate committee of the firm will be part of the review process.
- (iii) Goldman Sachs will carefully review requests to provide staple financing when IBD is selling a public company. This review will occur as part of the firm's customary staple financing approval process. Senior management or an appropriate committee of the firm will be part of the review process.
- (iv) The applicable transaction oversight committees – with the assistance of the CRBSG and the Legal Department – will undertake a heightened review before approving an underwriting for an issuer in which the firm or its affiliates, including MBD and other firm-managed private funds, have a material interest as a shareholder or creditor.

C-5. Fund and Firm Balance Sheet Investing and Lending Activities

Several business units of the firm may pursue lending and investing activities. For example, the Securities Division as well as funds in IMD and MBD may make or invest in senior, subordinated and mezzanine loans. Equity investments may also be made by business units in different divisions. The Securities Division generally lends and invests for the firm's own account, while IMD and MBD generally invest and lend on behalf of funds for which the firm is acting as investment manager and fiduciary. Potential conflicts of interest may arise in connection with certain of these activities.

11. The Business Standards Committee recommends that IMD funds that make alternative investments should be integrated into the firmwide Conflicts Resolution and Business Selection process in a manner consistent with their fiduciary duties. This recommendation reflects our objective of strengthening client relationships and reputational excellence.

⁵ Rules to be adopted as part of financial regulatory reform may limit or restrict certain of the activities described above between Goldman Sachs and MBD funds, other firm-managed funds and / or portfolio companies controlled by those funds.

C-6. Conflicts Policies / Processes / Principles

The CRBSG has developed policies and guidance on activities requiring advance clearance. To identify potential conflicts, the CRBSG relies on internal databases and consults with relevant firm employees. In addition, CRBSG professionals are members of many of the committees that oversee transaction execution. They also receive committee meeting agendas. The group obtains information about activities on the public side of the firm's Information Barriers – including positions in securities and confidential information possessed by employees – primarily by monitoring internal databases. This ensures that public side personnel are not inadvertently alerted to a potential transaction on the private side of the Wall. The group also obtains information about private side activities from relevant private side personnel. The CRBSG continually reviews and updates its policies and procedures in this regard.

12. To strengthen reputational excellence, the Business Standards Committee recommends that the firm review and update conflicts-related policies and procedures, as appropriate. The firm will make a consolidated and comprehensive compilation of these policies and procedures available to relevant personnel in connection with training and professional development initiatives. This compilation will also serve as an ongoing resource to the firm and its employees and facilitate monitoring by the Compliance and Internal Audit Departments. The Committee stresses that all employees share the responsibility to identify and elevate potential conflicts.

C-7. Client Communications

It is important that each client understand the roles and responsibilities that we assume in any particular transaction. We have reviewed what we disclose about actual or perceived conflicts in engagement letters, standard disclaimers and other documents. Our goal was to enhance the firm's overall conflicts resolution process, provide relevant information to clients and strengthen their confidence in Goldman Sachs.

13. The Business Standards Committee recommends that the firm employ materials written in plain language that articulate:
 - (i) What it means that the firm has completed its conflicts resolution and business selection process in any particular situation; and
 - (ii) What other activities the firm may continue to conduct while we are advising or financing a particular client.

We recognize that the language in engagement letters and standard disclaimers is often complex. We will provide education and training for firm employees and encourage them to communicate with clients through discussions and plain language written presentations about our conflicts resolution and business selection process. We will tailor this material to the business of a specific division and update it over time. Each employee who interacts with clients will be responsible for understanding and communicating the guiding principles for conflicts resolution and business selection to clients and will be accountable for following them. This recommendation reflects our objectives of strengthening client relationships and reputational excellence and enhancing transparency of communication and disclosure.

C-8. Training and Professional Development related to Conflicts Resolution

14. The Business Standards Committee recommends that the firm enhance its training and professional development programs regarding conflicts resolution. These programs will be updated to focus on familiarizing people with the compilation of conflicts policies and procedures discussed in the prior recommendation. Each employee who interacts with clients will participate in these programs. This recommendation reflects our objectives of strengthening client relationships and reputational excellence and enhancing transparency of communication and disclosure.

SECTION IV: STRUCTURED PRODUCTS

A. INTRODUCTION AND OVERVIEW

In the area of structured products,⁶ we have recently seen efforts by market participants to simplify products and structures and avoid unnecessary complexity. Of course, the underlying forces which drive innovation in our financial markets and products cannot be eliminated; in fact, that innovation produces many benefits. However, for the most complex products, there may be a serious question about whether a complex product should be introduced into the market at all, even though it may address a client's needs.⁷

The Committee believes all financial institutions, including Goldman Sachs, bear responsibility for constantly improving practices and procedures relating to the marketing and distribution of structured products. In addition, regulators and lawmakers around the world are considering changes to rules and law governing these products. We also recognize that the financial services industry and capital markets will continue to evolve. Accordingly, the firm must maintain the flexibility to adapt over time the recommendations discussed below to address changes in markets, regulation and the competitive and macro-economic environment.

The Committee examined several issues related to structured products, including the firm's existing internal approval process, the suitability of products for different types of clients, pre- and post-transaction sales practices, disclosure and documentation. Our recommendations will strengthen the firm's standards by:

- Improving the process for identifying structured products that should be subject to heightened review and approval;
- Enhancing our framework for evaluating suitability by distinguishing between different client segments and focusing on individual clients;

⁶ This section of the report deals with three categories of products and transactions: complex, structured and strategic. We use the term "structured products" to refer to these categories collectively and we use the category names complex, structured and strategic when discussing these categories individually.

⁷ The Firmwide New Activity Committee (described in Section VI of this report) and the firm's transaction oversight committees will be expressly charged with addressing this question.

- Developing additional pre- and post-transaction sales practices that, by building on existing practices, strengthen the firm’s responsibilities to our clients, provide stronger controls and enhance the post-transaction experience through additional client service; and
- Formalizing practices regarding securities origination and disclosure standards.

Several aspects of the Committee’s principles and recommendations exceed current regulatory requirements. Certain recommendations will result in the documentation of practices that are already part of the firm’s existing business standards. Documenting all practices will create greater accountability.

While the recommendations on structured products focus on the Securities Division, each division will implement these recommendations in a manner appropriate for their particular businesses.

B. GUIDING PRINCIPLES

The following principles guided the development of the recommendations on structured products:

- Standards of Sophistication. We are committed to knowing our clients and ensuring that they have the ability and background to understand the risks of all transactions they execute with us, including structured products.
- Market Participation. Before participating in a market for structured products, we will answer the critical question of whether we “should” engage in the relevant activity while we consider whether we “can” engage in the activity operationally.
- Disclosure. We are committed to making clear disclosures in offering documents.
- Documentation. We are committed to timely communication and transmission of relevant information and documents to our clients.
- Post-Transaction Engagement. Our responsibility to work with our clients does not end when we execute a transaction. We expect to engage with clients after the execution of a transaction, particularly when market developments occur that could materially impact the transaction and the client.

C. DISCUSSION AND RECOMMENDATIONS

The Committee's recommendations fall under the following four headings: (i) identifying complex transactions, designated structured transactions and strategic transactions; (ii) client suitability; (iii) pre- and post-transaction sales practices; and (iv) disclosure and origination standards.

C-1. Identifying Complex Transactions, Designated Structured Transactions and Strategic Transactions

The task of identifying structured products is complex. While certain factors such as leverage, lack of liquidity and lack of price transparency frequently characterize these products, there is often no simple mechanism for determining on which side of the line a particular structured product falls. Once a product has been identified as a structured product, the review and approval process for that product must consider the client segments investing in the product. Certain structured products that are suitable for one set of clients (e.g., professional investors) will not be suitable for others (e.g., retail).

Mindful of these challenges, we propose a framework for identifying those structured products that should be subject to heightened review and approval. We recognize that, as products and markets evolve, the framework will need to evolve and that a framework can never fully replace good judgment.

The Business Standards Committee recommends establishing a global, consistent process for determining which transactions will be subject to enhanced review, approval and documentation. Specifically, the Committee recommends a three step identification process for designated structured, strategic and complex transactions as follows:

15. **Designated Structured Transactions.** The Structured Products Committee (SPC) will continue to review and approve all transactions that meet the requirements of a "designated structured transaction" under the charter of the SPC. Designated structured transactions are transactions, 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,⁸ or (iv) the product or transaction (or series of transactions) could be characterized as a financing, but is structured in another manner. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.

16. Strategic Transactions. All strategic transactions will be subject to heightened review and approval. For this purpose, “strategic transactions” are transactions that are sufficiently large and important to a client or sufficiently large in the context of the market that they warrant heightened scrutiny. 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. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.
17. Complex Transactions. Complex transactions will also be subject to heightened review and approval. While not an exhaustive list, the following 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. The Committee has identified these factors to guide salespeople⁹ in deciding which transactions are complex and merit heightened review and approval. Not every transaction exhibiting these factors is complex – in fact these factors may be present in relatively simple transactions. Identifying complex transactions requires judgment. When in doubt, salespeople will seek guidance from their supervisor or the chairs of the Firmwide Suitability Committee (or their designees).

⁸ “Offsetting legs” refers to cash flows under different parts of a transaction (or group of related transactions) which from an economic perspective cancel each other out. Transactions with offsetting legs may lack economic substance. Transactions without economic substance have not been and will not be approved by the SPC.

⁹ References to salespeople include, where the context requires, marketers, structurers and other members of the Goldman Sachs business team that work on structured products.

The Committee recommends the creation of new due diligence procedures. As part of the heightened review of complex and strategic transactions, salespeople will be required to complete a due diligence questionnaire that discusses the factors detailed above. The Firmwide New Activity Committee will also analyze these factors when reviewing a proposed new product or activity. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.

C-2. Client Suitability

The firm's policies and procedures must take into account the client segments to which products and transactions are being distributed. The level of scrutiny will depend partly on the client and partly on the specific role that Goldman Sachs is performing. Even where the firm does not have any legal responsibility to evaluate the suitability of a structured product, we believe the firm should nonetheless conduct suitability reviews as part of our pre-transaction approval process. We believe that this does not alter the fundamental nature of the client relationship or create additional legal duties or responsibilities.¹⁰

18. To strengthen client relationships and reputational excellence, the Business Standards Committee recommends redefining the firm's approach to segmenting clients for suitability purposes into one of the following three segments:
- professional investors (e.g., banks, broker-dealers, investment advisers and hedge funds);
 - other institutional accounts (e.g., municipalities, sovereigns, sub-sovereigns, pension funds, corporations, charities, foundations and endowments); and
 - high net worth accounts (e.g., natural persons, family offices).

Clients will be classified in one of these three segments; the classification will form part of their client profile, which is described below, and will be incorporated into the suitability analysis for transactions executed by that client.

As a general rule, the sale of structured products to other institutional or high net worth accounts will be subject to heightened suitability review. Professional investors will be presumed eligible to enter into most types of transactions without specific heightened review unless the

¹⁰ For example, in jurisdictions where the firm has a suitability obligation only when it recommends transactions to a client, the firm nonetheless may choose to conduct a suitability-type review on other transactions.

transaction is flagged as a designated structured transaction (Recommendation 15) or strategic transaction (Recommendation 16).

We recognize that some clients do not fit easily into any particular segment.¹¹ Moreover, the designation of a client as belonging to any particular segment is not a prejudgment on that client's level of sophistication or ability to transact in particular types of instruments; on the contrary, we believe that there is no substitute for a specific review of each individual client in making determinations about suitability. We concluded that our segmentation of institutional investors into two segments is consistent with recent regulatory developments and will improve our assessments of suitability.

For retail and high net worth investors, Goldman Sachs has policies addressing the distribution of structured products through Goldman Sachs PWM and third-party distributors. These policies are part of a Global Framework for the Distribution of Structured Investment Products, which sets forth the approval standards and review processes for certain products (including structured products) that are sold or re-sold (or used to create a product that is re-sold) to these investors. The Structured Investment Products Committee oversees this framework. In the Business Standards Committee's view, the Global Framework is consistent with the firm's overall approach to the issue of suitability in relation to structured products.

C-3. Pre- and Post-Transaction Sales Practices

Pre-Transaction Sales Practices

The Committee analyzed the firm's pre-transaction sales practices, particularly in relation to structured products. This analysis builds on work previously conducted by the BPC on trading derivatives with municipal, sub-sovereign, sovereign and corporate clients. The following changes were made following the BPC's work:

- The firm introduced heightened suitability procedures and other enhanced controls for derivatives in 2008. These procedures and controls were expanded in 2009 and 2010 as part of a broad new suitability policy.
- The firm enhanced its review process for routine U.S. municipal bond underwritings.

¹¹ For example, some professional investors may themselves distribute products to retail and high net worth individuals. The firm has a separate process specifically designed to evaluate the suitability of the products distributed to retail or high net worth investors as discussed further below.

- The firm enhanced pre-transaction due diligence, disclosure and documentation procedures in 2009. The firm is now required to provide certain prospective clients with sensitivity analyses and mark-to-market scenarios for relevant transactions.
- The firm introduced new escalation and approval procedures, including a requirement that transactions with specified features (e.g., large in size or complex) receive approval by the supervisor for the applicable desk and, in certain cases, the appropriate Regional Suitability Committee.¹²

19. To strengthen client relationships and reputational excellence, the Business Standards Committee recommends the following additional enhancements to the firm's overall pre-transaction sales practices:

A client profile will be maintained for each client in the form of a matrix (a Transaction Class Matrix or TCM) which reflects the types of transactions (e.g., cash, options, contingent liabilities) and underliers (e.g., equities, commodities, rates, credit) in which the client is pre-approved to transact from a suitability perspective. The TCM must be reviewed and approved by the relevant sales manager and Compliance officer before becoming effective and before being amended.

A heightened suitability review and approval will be required for any transaction or transaction class that falls outside a client's TCM. The level of review and approval required will generally be based on: (i) the maximum probable exposure (MPE) for the transaction; (ii) the segment classification of the client determined as outlined in Recommendation 18 above; and (iii) the factors for determining complexity as outlined in Recommendation 17 above (collectively, Due Diligence Review Criteria). These Due Diligence Review Criteria will be included in the Due Diligence Questionnaire that sales professionals will complete when they seek approval for transactions with clients who have not been preapproved for those transactions.

All designated structured and strategic transactions will require heightened review even when a client is eligible to execute a transaction based on its TCM.

¹² As described in Section VI of this report, the Regional Suitability Committees are being replaced by a Firmwide Suitability Committee.

Post-Transaction Sales Practices

Our responsibilities to clients do not end on the execution date of a transaction. Post-transaction monitoring and follow-up will create greater sales force accountability, greater transparency to clients and a better client experience overall. As part of the BPC review noted above, the firm has already implemented several new post-transaction enhancements for derivative transactions with specific clients, including (i) tighter documentation standards (including reporting and escalation procedures for unexecuted confirmations); (ii) sending monthly valuation reports on specified transactions to certain clients; and (iii) improved ongoing monitoring (and internal review) of transactions through quarterly meetings with business supervisors and the Credit, Legal and Compliance Departments. The purpose of these meetings is to review high exposure levels and MPEs for certain clients.

20. To strengthen client relationships and reputational excellence, the Business Standards Committee recommends the following post-transaction sales practices for structured products:

The firm will establish processes to monitor relevant metrics (e.g., mark-to-market) for clients. Sales managers will be responsible for reviewing the results of this monitoring and taking appropriate actions on relevant transactions. There will be a mechanism for escalating issues to sales leadership and the Credit, Legal and Compliance Departments. Sales professionals will also be required to monitor the actual mark-to-market for transactions selected for heightened review and compare that mark-to-market against any previously analyzed stress test results that were provided to the client. In addition, divisional management will consider practices for monitoring the fulfillment by sales professionals of these post-transaction responsibilities for clients.

C-4. Disclosure and Origination Standards

Financial intermediaries like Goldman Sachs play many different roles in structured products, including acting as issuer, underwriter / arranger, derivatives counterparty, index sponsor, collateral agent and calculation agent. Depending on the roles the firm undertakes and the form and structure of the instrument we ultimately transact, the firm can encounter different legal and reputational risks. The Committee examined a broad cross section of the structured product securities underwritten and sold by the firm to identify ways to enhance Goldman Sachs' origination and disclosure practices. The resulting recommendations, all designed to improve transparency, are outlined below.

21. The Business Standards Committee recommends that each business unit that originates securities products¹³ be subject to consistent policies and standards, approval processes, disclosure requirements and oversight as contemplated by Recommendation 8. These controls will include the following: (i) each business unit will be required to have written policies and procedures incorporating minimum disclosure standards; (ii) the appropriate firmwide transaction oversight committee will review and approve the policies and procedures governing origination activities of each business unit; and (iii) each business unit will be required to designate a business supervisor who is responsible for its origination activities and compliance with applicable policies and procedures. This recommendation reflects our objectives of strengthening client relationships and reputational excellence.
22. To strengthen client relationships, reputational excellence and enhance transparency of communication and disclosure, the Business Standards Committee recommends as follows:
- (i) The offering documents for securities products should include appropriate disclosure of risk factors, including risks arising from the instrument structure, underlying assets, market risks and counterparty credit risks. Where appropriate, investors will be provided with scenario analyses and stress test results. The firm will formalize disclosure standards to cover instances when the firm is underwriting a securities product that is collateralized by securities issued by Goldman Sachs (including when the securities product is issued by a special purpose vehicle). In those cases, the firm will disclose any material risks, including liquidity and credit concentration risks, associated with the collateral securities.
 - (ii) Business units must disclose to the relevant personnel responsible for approving a securities product any specific benefits to Goldman Sachs, in addition to underwriting fees.
 - (iii) The firm will continue to undertake appropriate due diligence reviews of issuers of securities products (including third-party issuers) and third-party managers. The business unit's policies and procedures will address when, and under which circumstances, the firm should review existing due diligence of third-party issuers or managers. For any issuance involving a third-party issuer or manager, the business

¹³ "Securities products" refers to new issue securities sold by means of an offering document; it does not include bilateral derivative transactions.

unit responsible for the transaction will confirm that it has followed the firm's due diligence procedures.

C-5. Training and Professional Development in the Area of Structured Products

The Committee's recommendations outlined above will require substantial training and professional development.

23. To strengthen training and professional development, the Business Standards Committee recommends the development of cross-divisional training and professional development programs to implement the structured products recommendations. These programs will apply to all sales and trading personnel worldwide.

SECTION V: TRANSPARENCY AND DISCLOSURE

A. INTRODUCTION AND OVERVIEW

The Committee evaluated the firm's public financial disclosures¹⁴ with the objective of improving our standards of transparency and disclosure with clients, investors, market participants, regulators and the public. As part of our work, we analyzed the feedback provided through the client survey and by the investor and analyst communities. We focused on explaining more clearly our business activities and performance, and how they relate to serving clients. We also wanted to address certain concerns and perceptions.

Our recommendations should be set in context. First, the firm does not have complete flexibility in communicating its financial condition and results. A U.S. public company's financial disclosures are framed by the requirements of the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB). Indeed, our recommendations on disclosure will be subject to review by the SEC.

Second, any proposed new disclosure must be evaluated against the backdrop of disclosure provided by peers and competitors. It is important to our investors, regulators, and other constituencies that our disclosure be as comparable as practical to that provided by peers and competitors. In addition, the disclosure we provide should not competitively disadvantage the firm. Finally, improving disclosure is an ongoing process that will continue after the recommendations of the Committee have been implemented.

B. GUIDING PRINCIPLES

In making its recommendations, the Committee followed these principles:

- The firm's business activities should be described and presented in a way that clearly identifies the drivers of performance and revenues.
- The relationship between the firm's balance sheet and its business activities should be understandable and the firm's liquidity management practices clearly explained.

¹⁴The Committee concentrated its work on the firm's SEC disclosures, including the Form 10-K, Form 10-Q, and the firm's quarterly earnings release, which are filed on Form 8-K.

- The firm’s risk management practices and philosophies should be transparent and quantitative, and qualitative disclosure on credit risk exposures should be strengthened.
- The entirety of the firm’s financial disclosure and business descriptions should be presented simply and clearly.

C. DISCUSSION AND RECOMMENDATIONS

We have made recommendations addressing (i) Business Segment Reporting; (ii) Balance Sheet and Liquidity; (iii) Risk and Risk Management; and (iv) Clarity and Overall Disclosure. Each of these recommendations reflect our objective of enhancing transparency of communication and disclosure.

C-1. Business Segment Reporting

Because many of Goldman Sachs’ businesses are complex and integrated, we must articulate clearly the drivers of our financial performance. The client survey and overall public scrutiny suggest that we must improve our description of the firm’s businesses, distinguishing between our client franchise activities and our investing and lending activities.

24. The Business Standards Committee recommends reorganizing the firm’s three existing business segments into four business segments. The reorganized segment disclosure will provide more clarity as to the nature of the firm’s business activities, particularly the activities currently aggregated in the “Trading and Principal Investments” segment. This change will better demonstrate the importance of client franchise activities and client facilitation to our revenues. The four proposed business segments are:

- **Investment Banking:** This segment will include the firm’s revenues from its activities as an advisor together with its debt and equity underwriting activities and revenues associated with derivative transactions directly related to an advisory or underwriting assignment.
- **Institutional Client Services:** This new segment will include the firm’s revenues from client execution activities related to making markets in various products, which form an important part of the firm’s client franchise businesses. These activities are currently included in the Trading and Principal Investments segment. Institutional Client Services will also include the firm’s Securities Services business, which, under the existing segment construct, is aggregated into the “Asset Management and Securities Services” segment.

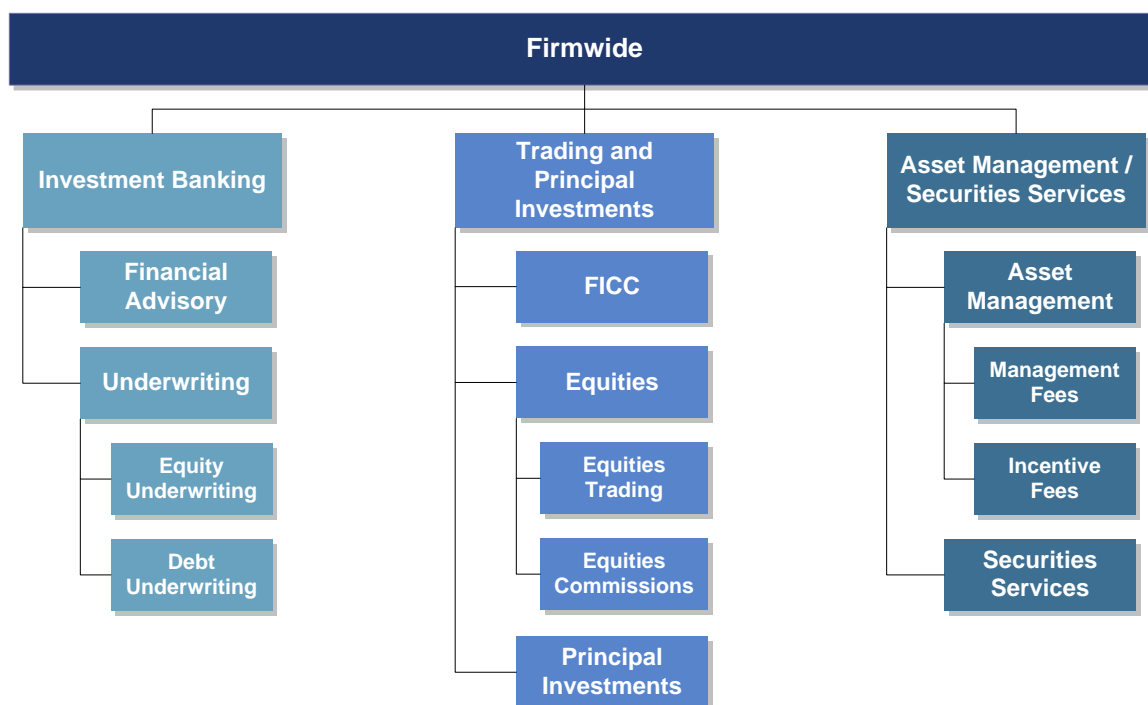
- **Investing & Lending:** This new segment will include the firm's revenues from investing and lending activities across various asset classes, primarily including debt and equity securities, loans, private equity and real estate.¹⁵ These activities include both direct investing and investing through funds. Under the existing segment construct, these activities are currently included in the Trading and Principal Investments segment.
- **Investment Management:** This new segment will include the firm's fee revenues earned in connection with its asset and wealth management businesses, including Goldman Sachs Asset Management (GSAM), Private Wealth Management and the firm's merchant banking funds. In addition to management and incentive fee revenues, this segment will also include transaction revenues related to the firm's Private Wealth Management business, including commissions and spreads.

This change in the firm's business segments will require a three-year reorganization of the firm's segment disclosures.

¹⁵ In the years through 2010, this segment also included the results of the firm's proprietary trading business, "Principal Strategies." The assets related to these activities were substantially liquidated during 2010.

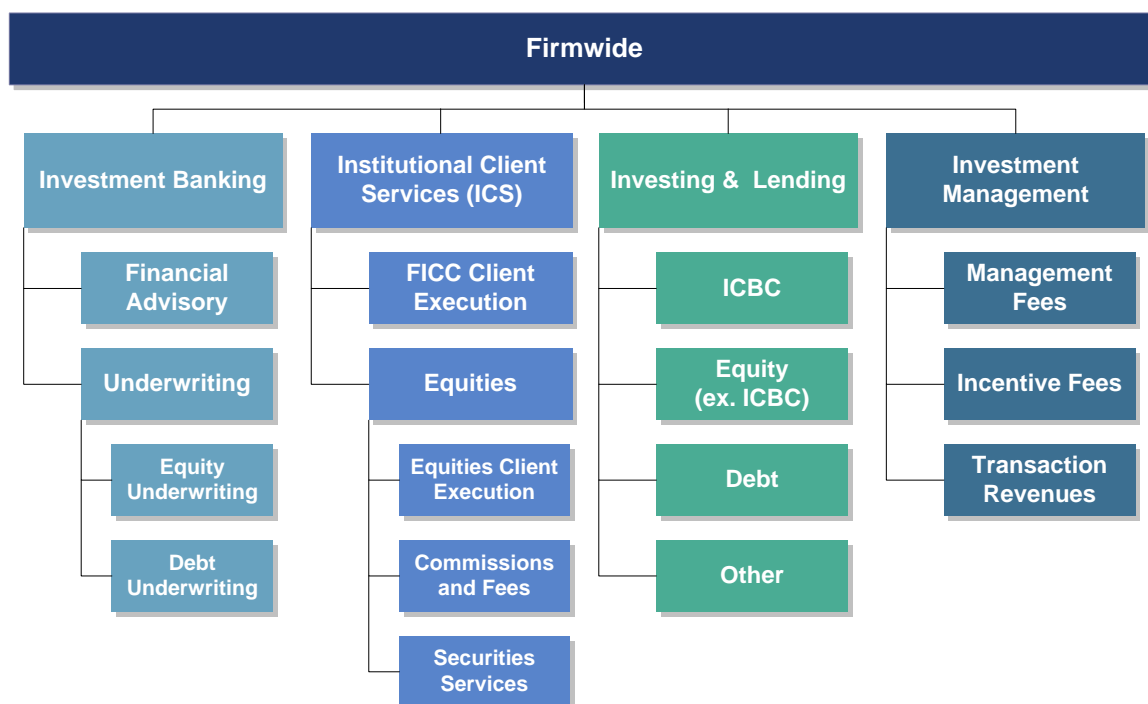
Existing Business Segments

The following diagram illustrates the firm's existing three business segments:



Proposed Business Segments

The following diagram illustrates the firm's proposed four business segments:



C-2. Balance Sheet and Liquidity

Balance Sheet

The firm's balance sheet disclosure provides another opportunity to describe more clearly the nature of the firm's business activities and the importance of the client franchise and client facilitation. In addition, balance sheet disclosure provides an opportunity to demonstrate the highly liquid nature of significant portions of the firm's balance sheet.

Our business model requires that we maintain a substantial balance sheet to facilitate client trades, provide financing to clients and make investments alongside clients. Current generally accepted accounting principles (GAAP) disclosure does not clearly identify the balance sheet impact of these client facilitation activities, nor does it explain the asset contribution of the firm's other activities and businesses.

25. The Business Standards Committee recommends that the firm disclose a simplified balance sheet showing assets by business unit / activity, including:
- **Excess Liquidity:** the amount of available cash and highly liquid securities the firm maintains over and above its day-to-day liquidity needs;
 - **Secured Client Financing:** the assets related to secured funding provided to clients in the firm's prime brokerage, matched book and futures businesses, as well as client margin lending positions;
 - **Institutional Client Services:** the inventory related to the firm's client facilitation business, secured financing agreements and trading-related receivables;
 - **Investing & Lending:** the assets related to the firm's investing and lending activities, primarily including debt and equity securities, loans, private equity and real estate investments. These investments may be held directly or through funds; and
 - **Other Assets:** primarily includes the firm's goodwill, intangibles and physical property.

As required by U.S. accounting standards, the firm will continue to accord prominence in its disclosure to the GAAP balance sheet. It will also provide a detailed reconciliation of the GAAP balance sheet and the proposed simplified balance sheet.

Liquidity

The financial crisis underscored the need for financial institutions to maintain sufficient liquidity. Our liquidity policies are an important tool for ensuring that the firm maintains sufficient liquidity and we believe that additional disclosure on the mechanics and assumptions behind these liquidity policies will better describe our robust liquidity management framework.

26. The Business Standards Committee recommends that the firm (i) enhance disclosure with respect to liquidity stress tests by including details on both scenario assumptions and modeling parameters, as well as to provide substantial qualitative detail on the contractual and contingent cash and collateral outflows considered by the firm's Modeled Liquidity Outflow¹⁶ and (ii) provide incremental qualitative detail on how the firm sizes its excess liquidity.

C-3. Risk and Risk Management

The financial crisis also demonstrated the critical importance of rigorous risk monitoring and management. We believe the firm should enhance the disclosure of risk management policies and practices, including details on our daily risk management process and overall credit risk.

27. The Business Standards Committee recommends that the firm implement the following:
 - Describe, in greater detail and in plain language, the firm's risk management structure, culture and processes. This description will include detail on (i) the firm's risk management governance structure, including the interaction between business units and independent control functions; (ii) how the firm uses committees to assist in managing risk, including a description of the relevant committees' specific mandates and membership; and (iii) the firm's risk management processes, including its use of mark-to-market, risk limits, price verification and active position management, and robust systems to ensure the timely delivery of comprehensive and reliable data.
 - Substantially enhance the discussion of Operational Risk, reflecting its increasing importance to the firm.

¹⁶ Modeled Liquidity Outflow (MLO) is the firm's internal liquidity model that identifies and quantifies potential contractual and contingent cash and collateral outflows during both a market-wide and Goldman Sachs-specific stress situation.

- Provide additional qualitative disclosure regarding the Internal Capital Adequacy Assessment Process¹⁷ (ICAAP) to explain more clearly this aspect of how the firm manages capital.
- Expand the description of credit risk to (i) include additional credit risks, such as loans and other non-derivative exposures, in our quantitative disclosure; (ii) provide increased granularity on credit exposures by industry and region; and (iii) qualitatively describe the firm's recent credit experiences.

C-4. Clarity and Overall Disclosure

Effective disclosure begins with describing the activities of a business in plain language. We identified areas where our disclosure could be clearer, where similar information could be synthesized in one place and where redundancy of information could be eliminated.

28. To improve the clarity of our overall disclosure, the Business Standards Committee recommends that the firm (i) rewrite its business description in the Form 10-K and its Annual Report to shareholders in plain language to better explain our business activities, our performance and how it relates to serving clients and (ii) reorganize its financial disclosure to consolidate related topics to remove, where possible, repetitive information described in both the Management Discussion and Analysis (MD&A) and financial statements, and to improve the overall clarity of the disclosure.

¹⁷ The firm's Internal Capital Adequacy Assessment Process (ICAAP) ensures that the firm is appropriately capitalized relative to the risks of its businesses. ICAAP incorporates an internal risk based capital (IRBC) assessment designed to identify and measure risks associated with the firm's business activities, including market risk, credit risk and operational risk. Capital adequacy is evaluated based on the result of this IRBC assessment as well as using the results of stress tests which measure the firm's performance under various market conditions.

SECTION VI: COMMITTEE GOVERNANCE

A. INTRODUCTION AND OVERVIEW

Goldman Sachs relies heavily on committees to coordinate and apply consistent business standards, practices, policies and procedures across the firm. The firm's committee governance structure should serve to enhance our reputation, business practices and client service. In this way, committees serve as a vital control function.

In light of these objectives, the Business Standards Committee conducted a thorough review of certain of Goldman Sachs' firmwide operating committees with a particular focus on enhancements designed to achieve greater accountability for reputational risk management and client service.

B. GUIDING PRINCIPLES

In making its recommendations, the Committee followed these principles regarding the firm's committee governance structure:

- The structure must enhance accountability for business standards and practices, especially reputational risk management and client service.
- The structure must provide a clear roadmap for identifying, escalating and resolving reputational and client matters.

Summary of Process

We considered several factors and sources of information in reaching our conclusions and recommendations, including: (i) analysis of committee charters, agendas and meeting materials; (ii) interviews with committee chairs and observations of committee meetings and deliberations; (iii) analysis of committee membership and composition; (iv) analysis of processes and work flows, especially those involving new products approval and suitability review; (v) guidance from external consultants on governance, benchmarking and other areas; (vi) analysis of changing regulatory requirements and their impact, if any, on the firm's committee structure; (vii) detailed mapping of historical committee agenda items to the recommendations set forth below; and (viii) meetings with companies both within and outside the financial services industry to understand

and benchmark different practices and procedures, including those for managing reputational risk and responding to significant incidents.

C. DISCUSSION AND RECOMMENDATIONS

Our recommendations fall into three main categories: (i) establishing new committees or groups to enhance the firm's current committee governance structure; (ii) enhancing or restructuring existing firm committees to clarify roles, responsibilities and accountability; and (iii) enhancing the policies, procedures and infrastructure of committees to ensure greater consistency, efficiency and dissemination of best practices.

The recommendations of the Committee address the following objectives:

- Reinforce ownership and accountability for reputational risk management and client service;
- Reinforce ownership and accountability for decision-making and management of key risks by the leadership of divisions and business units;
- Clarify committee authority, roles and responsibilities;
- Reduce redundancy and potential gaps in committee responsibilities;
- Harmonize, where appropriate, cross-divisional practices to ensure consistency and comprehensive assessment of significant matters;
- Ensure that committees have membership from key risk disciplines, control functions and businesses;
- Formalize a process for reviewing events or incidents;
- Establish clear reporting lines of committees; and
- Ensure a transparent process for appeals of decisions and escalation of issues.

A diagram of the new committee structure and committee reporting lines is included at the end of this section.

C-1. Creation of Firmwide Client and Business Standards Committee

The Business Standards Committee recommends the creation of a Firmwide Client and Business Standards Committee (CBSC) that will assume the responsibilities of the existing Business Practices Committee and have additional focus on the primacy of client interests and reputational risk. This is an important change in the firm's committee structure, which is

designed to show the interrelationship between client service, business practices and reputational risk management.¹⁸

29. The Business Standards Committee recommends that the following changes be made:

Establish a “Firmwide Client and Business Standards Committee.” The Client and Business Standards Committee will function as a high-level committee that assesses and makes determinations regarding business practices, reputational risk management and client relationships. This committee will initially be chaired by the firm’s President and Chief Operating Officer and will report to the Management Committee. Its responsibilities will include:

- designing and implementing a comprehensive firmwide program to enhance our client franchise;
- overseeing cross-divisional client coordination and annual client strategy reviews by division;
- regularly reviewing the operational and reputational risks of the producing divisions and certain control functions;
- resolving cross-divisional business practices and business selection matters;
- resolving appeals of business practices, suitability and reputational matters from other firm committees;
- periodically soliciting and assessing client views of the firm and addressing client concerns and incidents;
- overseeing divisional and regional Client and Business Standards Committees – formerly divisional and regional Business Practices Committees – and the newly formed Firmwide Suitability Committee and Firmwide New Activity Committee;
- commissioning cross-divisional committee reviews to identify best practices and / or to address emerging themes;
- overseeing the implementation of Business Standards Committee recommendations, where appropriate; and
- overseeing the Conflicts Resolution and Business Selection Group.

¹⁸ The BPC recently conducted a self-assessment that resulted in several findings and recommendations that are consistent with the views and recommendations of the Business Standards Committee.

Establish a “Committee Operating Group” of the Client and Business Standards Committee. A Committee Operating Group will be established to assist the Client and Business Standards Committee in carrying out its functions. The Committee Operating Group will be headed by a senior leader reporting into the Chair of the Client and Business Standards Committee.

This recommendation reflects our objectives of strengthening client relationships, reputational excellence and committee governance.

C-2. Divisional and Regional Client and Business Standards Committees

The Client and Business Standards Committee will be supported by the divisional and regional CBSCs. These committees will be accountable for clients, business standards and reputational risk management at the divisional and regional levels.

The Business Standards Committee recommends:

30. Strengthen Procedures of Divisional and Regional Client and Business Standards Committees. The operating procedures of the divisional and regional CBSCs will strengthen accountability for reputational risk management and client relationships as follows:

- appropriate senior leadership from divisions and regions will chair each divisional and regional CBSC. The Chairs of these regional and divisional committees will coordinate with the Chair of the CBSC in selecting members;
- membership also will include senior control function leaders and, where appropriate, senior advisors such as retired PMDs. These members will help identify and elevate cross-divisional matters;
- the divisional and regional CBSCs will be responsible for providing regular substantive reports to the Firmwide CBSC; and
- unresolved matters and appeals will be escalated to the Firmwide CBSC.

This recommendation reflects our objectives of strengthening reputational excellence and committee governance.

C-3. Suitability and New Activity

We analyzed how the firm makes product, client and transaction suitability determinations and how it reviews and approves new activities. Today, suitability determinations are made by different firm committees and at different levels. For instance, Regional Suitability Committees consider suitability for certain strategic transactions. The Structured Investment Products Committee considers suitability for certain products for high net worth or retail investors. The Capital and Commitments Committees consider suitability in connection with capital commitments and underwritings.

While various committees consider suitability, there is no single committee that acts as the central point of escalation for suitability matters arising from different committees. We believe one committee should set standards for client suitability across the firm's activities.

In addition, unless reviewed by a transaction oversight committee, the current approval process for new activities and products is primarily focused on operational and control matters. In other words, the approval process is focused primarily on answering the question of "can we" engage in the activity or product rather than also formally considering the question of "should we" engage in the activity or product, taking into account reputational, client, suitability or other concerns. Most of the work of regional and divisional New Products Committees focuses on the "can we" question. We believe that a firm committee should be required to formally ask and resolve the question of whether the firm "should" engage in any significant new product or activity, taking into account the factors above.

Any new product or activity must have the support of the leadership of the relevant division before it is brought before the appropriate firmwide committee. Each divisional CBSC will establish a formal process to consider and approve new products and activities from a reputational point of view before they are submitted to a transaction oversight committee for review.

The Business Standards Committee recommends that the following enhancements be made to the suitability and new activity review processes:

31. Establish a "Firmwide Suitability Committee." A Firmwide Suitability Committee will be established, reporting to the Client and Business Standards Committee. This new committee will replace the existing Regional Suitability Committees. In addition, to address time zone practicalities, an Asia Suitability Committee will be formed, which will

report to the Firmwide Suitability Committee. The Firmwide Suitability Committee will have the following responsibilities:

- review transactions originating in EMEA and the Americas that require review as set forth in Section IV of this report relating to Structured Products;
- set standards and policies for product, transaction and client suitability and provide a forum for more consistency across divisions, regions and products on suitability assessments;
- review suitability matters escalated from other firm committees; and
- oversee the activities of the Asia Suitability Committee, Structured Products Committee and Structured Investment Products Committee.

To facilitate consistent firmwide standards and practices for suitability assessments, the charters of the Firmwide Suitability Committee and the Asia Suitability Committee will require: (i) certain membership overlap; (ii) regular reports by the Asia Suitability Committee to the Firmwide Suitability Committee; and (iii) escalation of significant Asia-specific suitability matters by the Asia Suitability Committee to the Firmwide Suitability Committee.

Establish a “Firmwide New Activity Committee.” A Firmwide New Activity Committee will be established, replacing the existing Firmwide New Products Committee. The Firmwide New Activity Committee will report to the Client and Business Standards Committee and will have the following responsibilities:

- for significant matters, answer the critical question of “should we” engage in the new activity (considering reputational, client, suitability and other concerns) as well as a detailed “can we” review, recognizing that divisional and regional business leadership must analyze both questions prior to sponsoring a matter;
- oversee the activities of the Regional New Products Committees, Acquisition Review Committee and Physical Commodity Review Committee; and
- establish a process to identify and review previously approved new activities that are significant and that have changed in complexity and / or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate.

Considering the similarity of issues that may arise in the review of suitability matters related to transactions and new activities, the Business Standards Committee expects that the Firmwide Suitability Committee and Firmwide New Activity Committee will coordinate regularly to harmonize best practices and ensure a consistent approach. The two committees will have certain overlapping members.

This recommendation reflects our objectives of strengthening reputational excellence and committee governance.

C-4. Event Reviews

The Business Standards Committee recognizes the importance of learning from events or incidents that raise key risk concerns (e.g., reputational, business practices, client franchise or financial risks). These events can occur at the firm or in the market more broadly. The financial crisis further highlighted the importance and benefit of communicating this learning broadly throughout the firm along with targeted training and remediation following an event or incident. To facilitate “event reviews,” it is important that senior management and select firmwide committees have a resource available to rapidly review incidents that raise key risks. The recommendation below is not intended to impact existing independent, internal functions, although event reviews should be coordinated with Internal Audit and other control functions where appropriate.

32. Establish the “Event Review Group.” The Business Standards Committee recommends that an Event Review Group be on call to senior management and select firmwide committees to perform time-sensitive, high-profile targeted reviews of incidents or other business or industry matters of concern. The Event Review Group will comprise a rotating group of seasoned firm leaders. They will have the ability to assemble resources and work closely with the Legal and Compliance Departments and other relevant control groups. The Event Review Group will document and disseminate its findings to the appropriate constituents, and develop remediation, training and education initiatives. This recommendation reflects our objectives of strengthening reputational excellence, committee governance and training and professional development.

C-5. Enhancements to Committee Procedures

The charters of certain committees lack clarity and in some cases overlap with the jurisdiction of other committees. In addition, committees have different practices and procedures. To address

these issues, the firm will improve the consistency of practices and procedures of firm committees, improve oversight and reporting lines and ensure that committees have the appropriate representation across key risk disciplines, control functions and businesses.

The Business Standards Committee recommends the following improvements to committee procedures:

33. Reputational Risk Ownership. Committee charters will reinforce the committees' ownership and accountability for, among other things, reputational risk management.

Firmwide Risk Committee Reporting. The Finance Committee and its subcommittees will report to the Firmwide Risk Committee, and the Firmwide Risk Committee will report to the Management Committee.

Capital and Commitments Committees. The Capital Committee will report to the Firmwide Risk Committee, and the Commitments Committees will report to the Client and Business Standards Committee. On reputational risk issues, both committees will engage with the Client and Business Standards Committee. On capital commitments issues, both committees will work with the Firmwide Risk Committee.

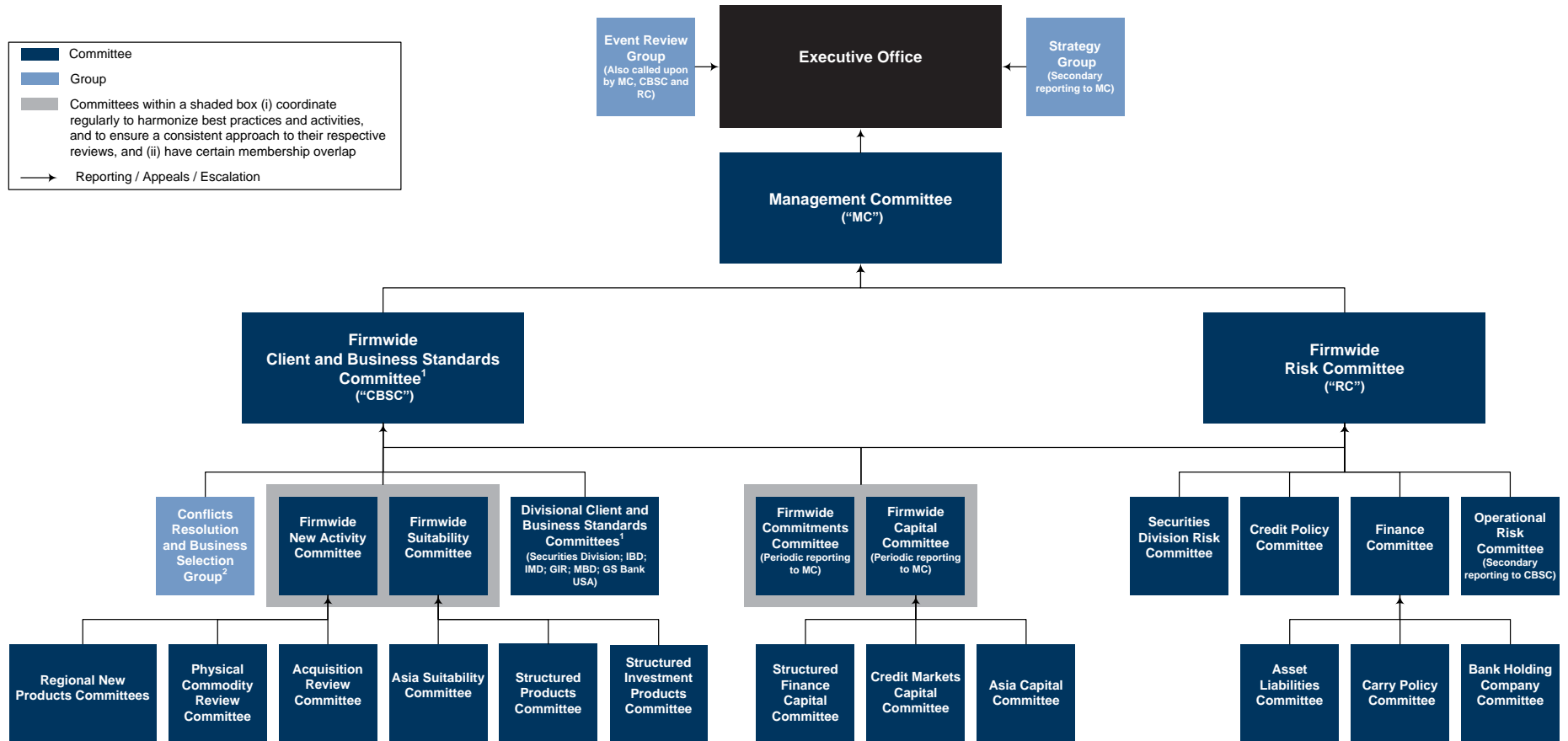
Both the Capital and Commitments Committees play significant roles in reviewing underwritings and firm capital commitments. Accordingly, each of these committee's charters will be amended to require certain membership overlap to ensure a consistent approach to reputational risk management and best practices.

Formal Committee Process Framework. The Committee Operating Group of the Client and Business Standards Committee will be responsible for establishing and maintaining a formal policy framework for committee best practices, processes and procedures governing all aspects of committee operations, including charters, regular meeting agendas, minutes and statements of action. The Committee Operating Group will require formal, periodic self assessments by committees of their activities and effectiveness, including member participation. These results will be presented to their supervising committee. The Client and Business Standards Committee and the Management Committee will be able to review these self assessments.

This recommendation reflects our objectives of strengthening reputational excellence and committee governance.

Recommended Committee Structure

The following chart reflects the new committee governance structure for the firm.



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)

² Day-to-day responsibility to Division Heads; reporting / appeals / escalation to Firmwide Client and Business Standards Committee

SECTION VII: TRAINING AND PROFESSIONAL DEVELOPMENT

A. INTRODUCTION AND OVERVIEW

The success of the Business Standards Committee's efforts will be measured by how effectively our people act on its recommendations. Over time, effective training and development will enrich our corporate culture and strengthen the values of client service and our focus on reputational risk management.

Corporate culture is hard to define, but easy to recognize. We believe our culture is central to our ability to be successful. Yet even strong corporate cultures must evolve and adapt to changes in the business environment. In the aftermath of the financial crisis it is especially important for Goldman Sachs to adapt and evolve.

The Committee's implementation of recommendations will begin immediately in January 2011, starting with a meeting of all partners and followed by a meeting of all extended managing directors. In addition, the orientation in January 2011 for new PMDs and EMDs will include sessions related to the Committee's recommendations.

The goal of these efforts will be for top leadership to set the right tone and galvanize the firm into action. We will focus on the observations and recommendations of the Committee's report, and what the recommendations mean for our employees. This will serve as a guide for how we expect our employees to embrace and act upon the Committee's recommendations.

Over the next year, the firm's Chairman and CEO will lead a global program involving the firm's 2,200 PMDs and EMDs to reinforce the most important attributes of our culture. We will roll out a comprehensive program of communication and training to ensure that the critical themes and messages of the Committee are disseminated throughout each division and region of the firm. In addition, we will design and implement training and professional development to implement each of the recommendations in the report.

B. GUIDING PRINCIPLES

Our recommendations reflect the following guiding principles:

- **Culture.** The strength of Goldman Sachs' culture is critical to the firm's continued success. That culture must maintain its core values while continuing to evolve and adapt to changes in the market, regulation and the competitive and macro-economic environment.
- **Leadership.** Culture starts at the top of an organization. People must see their leaders and managers embodying the values and behaviors that exemplify the Goldman Sachs culture.
- **Training and Professional Development.** All training and professional development programs will emphasize the importance of our culture and reinforce the values embedded in our Business Principles.
- **Communication.** The firm's leaders should regularly communicate, both formally and informally, about our culture and values to ensure that they are part of every person's professional behavior.
- **Recognition.** Recognition includes compensation, promotion, assignments and mobility opportunities. The firm must make clear the link between the behavior expected of its people and the recognition used to encourage it. This is critically important because it signals broadly the way we expect people to behave and conduct business.

C. DISCUSSION AND RECOMMENDATIONS

C-1. Culture and Leadership

For more than 140 years, Goldman Sachs professionals have been building a culture based upon shared values that guide behavior and business dealings. These values – including client focus, excellence, integrity and teamwork – must inform how every person at Goldman Sachs behaves, interacts with clients and otherwise fulfills his or her daily responsibilities. These values are fundamental to earning the trust of clients, the confidence of stakeholders and the respect of the public at large.

Our culture – and employee confidence in and commitment to it – has remained strong following the financial crisis and the intense scrutiny of the industry and Goldman Sachs. That said, the events of the last several years and the results of both our external client survey and our

internal culture survey¹⁹ indicate that we need to reinforce certain aspects of our culture. We are committed to providing professional development programs that will strengthen key aspects of our culture, including:

- Client Orientation
- Reputational Excellence
- Personal Accountability
- Teamwork
- Long-Term Focus
- Professional Excellence

To ensure that our values are embedded in the activities and decision-making of our employees, we must repeatedly emphasize the importance of the firm's culture. We expect the firm's leaders to emphasize our values to our people at conferences, townhalls, other group meetings and in their day-to-day business activities. This is especially important given the firm's growth over the last decade. A majority of our people have been at the firm for less than five years. Instilling a sense of shared values across the firm requires that we constantly and rigorously emphasize, both formally and informally, our culture and each individual's responsibility for it.

The Business Standards Committee makes the following recommendations on our culture and leadership:

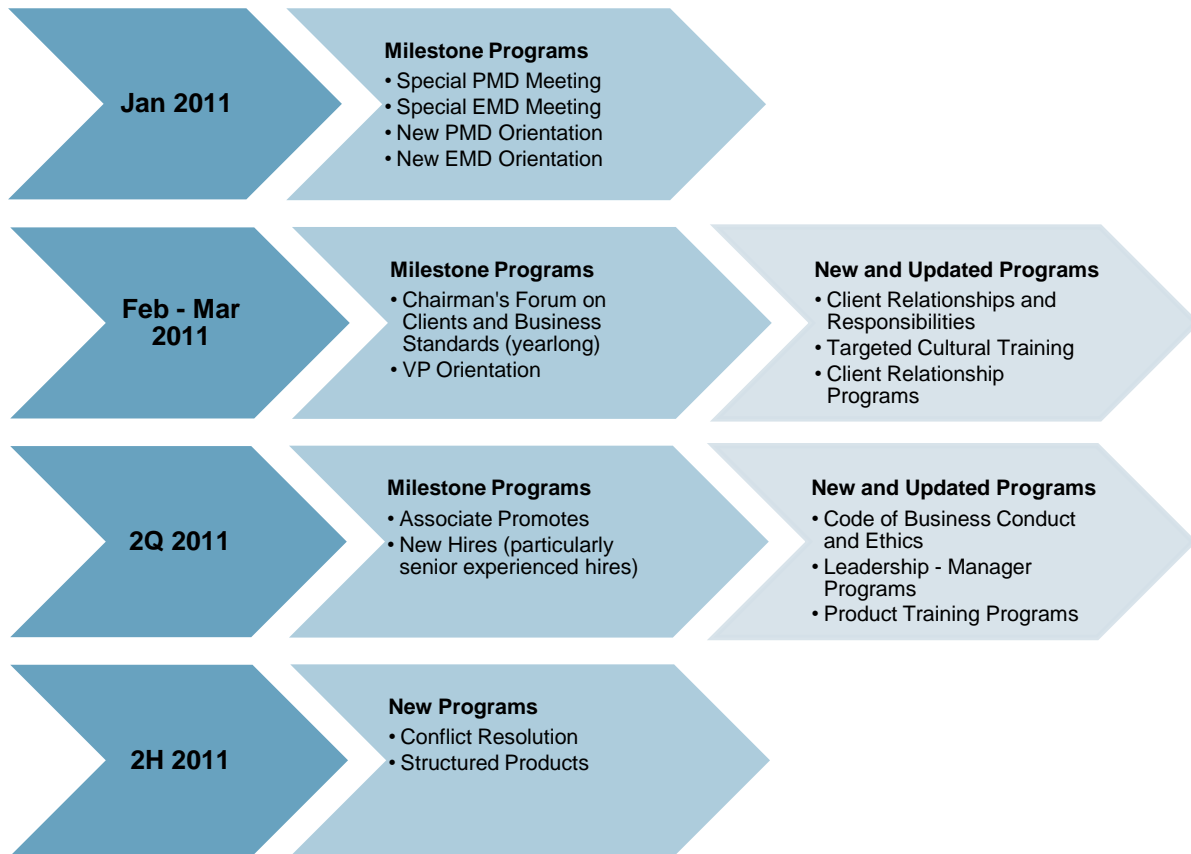
34. The firm will initiate professional development and training, beginning with its senior leaders, to immediately focus those leaders on reinforcing the firm's culture and on strengthening client relationships and reputational excellence. In addition, the firm will use milestones in people's careers as opportunities for targeted training on the Goldman Sachs culture. This recommendation reflects our objectives of strengthening client relationships, reputational excellence and training and professional development.
35. Our Chairman and CEO will lead the new Chairman's Forum on Clients and Business Standards, a global program engaging all of the firm's 2,200 PMDs and EMDs. This initiative will represent a large investment of time of our senior management team over the course of 2011 and will reinforce the most important attributes of our culture through in-depth discussions and case studies. The significant involvement of the CEO and other

¹⁹ The firm regularly conducts an online culture survey of its employees. The Committee accelerated the timing and expanded the scope of the survey to have employee feedback for consideration in developing recommendations.

senior management communicates the importance of the program and its messages. This recommendation reflects our objectives of strengthening client relationships, reputational excellence and training and professional development.

These programs will (i) emphasize the firm’s Business Principles and the client service values in order to reinforce the key cultural attributes identified above; (ii) provide early opportunities to review in detail the Committee’s recommendations with the firm’s senior leaders; (iii) reflect and incorporate key elements of our culture; and (iv) promote dialogue on the application of the Committee’s recommendations to our businesses and the conduct of our people.

The major elements of the 2011 training and professional development programs are shown below:



C-2. Personal Accountability

Events during the financial crisis underscored the importance of managing reputational risk. Each employee of Goldman Sachs has 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. We believe that we must manage

reputational risk with the same rigor as financial risk, and that each employee must focus on reputational risk.

36. To strengthen reputational excellence, the Business Standards Committee recommends that the firm emphasize the following criteria in the annual performance review process: (i) adherence to reputational risk management and (ii) reputational judgment and compliance. These enhancements were implemented for the 2010 performance review process.

C-3. Training and Professional Development

The implementation of the Committee's recommendations will require extensive training and a considerable investment of time and resources as discussed in greater detail in Section VIII, Implementation. The Committee believes that this training should emphasize the firm's culture and the firm's expectations for conduct and behavior. The better employees understand *why* we have certain expectations about behavior and conduct, the more likely they are to make good judgments.

37. To strengthen training and professional development, the Business Standards Committee recommends that the firm and each affected division design and implement training and professional development programs which address the Committee's specific recommendations.

C-4. Recognition

Recognition can powerfully communicate and reinforce expectations about appropriate behavior, when it is applied visibly and consistently. It can motivate people to behave in accordance with the highest standards of the firm. The converse is also true: when recognition is given to those who fail to meet the expected standard of behavior, or when deserved recognition is not given consistently, it can have a negative impact on employee behavior, and ultimately weaken the firm's culture.

In evaluating performance, the firm needs to give appropriate weight to leadership, culture and values along with commercial productivity. The firm will continue to focus on behaviors that exemplify client orientation, reputational excellence, personal accountability, teamwork, long-term focus and professional excellence and better link them to the firm's overall recognition programs, including promotion, compensation, assignments and mobility opportunities.

38. The Business Standards Committee recommends that the firm strengthen its focus on the importance of leadership, culture and values in the PMD and EMD promotion process by communicating to all involved their responsibility to thoroughly evaluate candidates on these attributes. This was accomplished in the 2010 PMD and EMD promotion process.

Communications during performance reviews, promotion and compensation conversations must be clear and specific so that our employees understand the correlation between recognition and behavior, particularly behavior related to leadership, culture and values.

This recommendation reflects our objective of strengthening reputational excellence.

C-5. Business Principles and Code of Business Conduct and Ethics

Acting with integrity and maintaining high ethical standards are critical values embedded in our Business Principles. Similarly, the firm's Code of Business Conduct and Ethics is intended to embody the commitment of the firm to conduct its business in accordance with all applicable laws, rules and regulations and with the highest ethical standards. While the Business Principles contain a set of core values, the firm's Code of Business Conduct and Ethics provides more specific guidance requiring amendment or updating from time to time. Both of these documents serve to maintain and encourage the compliance culture of the firm, a crucial element of our continued success.

39. To strengthen reputational excellence and training and professional development, the Business Standards Committee recommends that the firm update and strengthen the Code of Business Conduct and Ethics. Through that process, we will signal its importance and articulate the need for every employee to operate in accordance with the code. The firm should reinforce the importance of the Code of Business Conduct and Ethics by requiring employees to certify their compliance with the Code, highlighting it in orientation and training sessions and posting it more prominently on the firm's external and internal websites.

SECTION VIII: IMPLEMENTATION

A. INTRODUCTION

This final section of the Business Standards Committee report discusses the overall plan for implementing our recommendations. We view the recommendations as an integrated and complementary package of initiatives, each of which is concrete, realistic and achievable. Senior management and the Board of Directors are unequivocally committed to the implementation of all of the recommendations and expect our people to dedicate themselves to this effort. Finally, the Committee recognizes that the ultimate impact of its work will not be determined by what is written in this report but rather on how well the people of Goldman Sachs adapt their values and behavior to reflect the recommendations in the report.

An Oversight Group, consisting of senior leaders, will oversee the overall implementation effort. The Oversight Group will provide senior management and the Board of Directors with progress reports on the implementation effort and, more importantly, on how effective the changes are in achieving the Committee's larger goals. Below, we provide an overview of how the firm plans to execute these commitments.

The implementation plan has three basic principles. The first is ownership. One or more leaders of the firm have been assigned primary or secondary responsibility for the implementation of each of the Committee's recommendations. The second principle is accountability. Implementation leaders and their teams – through the Oversight Group – will report to senior management and the Board of Directors on their progress. The third, and more complex principle, is evaluation – is the implementation process yielding the desired results in promoting strengthened core values and culture across the firm?

The Committee's recommendations require major initiatives in training and professional development and substantial written documentation. Fulfilling these objectives requires a "plan within a plan" of implementation, which is discussed in parts C and D below.

B. IMPLEMENTATION FRAMEWORK

The key elements of implementation are: (i) Ownership and Oversight; (ii) Written Implementation Plans; (iii) Timing Commitments; (iv) Communication; and (v) Follow-Up and Evaluation.

- Ownership and Oversight. The Oversight Group will lead and oversee the implementation effort. As noted in Recommendation 29, one of the formal responsibilities of the newly formed Client and Business Standards Committee is overseeing implementation of the Business Standards Committee's recommendations. Accordingly, the Oversight Group will report to the Client and Business Standards Committee, to senior management and to the Board of Directors.

Each recommendation has primary and secondary owners (Implementation Owners). The Implementation Owners include senior leaders from revenue producing divisions as well as the support and control side of the firm, reflecting the cross-divisional efforts required.

For example, for structured products, the Implementation Owners have created separate workstreams including technology build outs, documentation, new policies and procedures and training materials. The Securities Division, the Technology Division, the Legal and Compliance Departments and other control functions are all committing substantial resources to this effort.

- Written Implementation Plans. A written implementation plan has been prepared for each of the Committee's recommendations and includes the following information:
 - the Implementation Owners;
 - a description of the implementation plan, including the concrete steps required and the defined outcome and goals;
 - a description of training and professional development required;
 - a list of critical items that are essential to determining overall timing;
 - a list of new documentation and documentation updates;
 - a description of any technology resources needed as well as any other special resources (such as external training experts) needed; and
 - a timetable for completion.

These written implementation plans are not intended to be static documents. They are tools to facilitate meeting deadlines and milestones, and Implementation Owners will review and update them regularly.

The complexity of the implementation plans varies by topic. The implementation of the recommendations related to structured products is especially complex. It will require a considerable amount of work including major technology build outs to implement the pre- and post-transaction sales practices and to standardize procedures with respect to origination and disclosure. Similarly, the implementation plan for Committee Governance in Section VI will require a large effort, since the charters for new firmwide committees must be created and those for existing committees must be updated.

- Timing Commitments. Given the amount and complexity of the work to be done, the Committee has avoided fixed deadlines and instead established targets by calendar quarters. Successful implementation is a beginning, not an end. For example, our success in reemphasizing the client service values can only be measured over time.

A few recommendations have already been implemented. For example, the enhancements to our Information Barrier and wall crossing procedures outlined in Recommendation 7 are in effect. The firm has also completed the move of certain origination activities from the Securities Division to the Financing Group as contemplated by Recommendation 8.

We recognize that timeframes cannot be rigid. The firm may need to adjust priorities in response to changing circumstances, including external events that impact our business and are beyond our control. The Committee is also acutely aware of the regulatory reform efforts underway in the United States and around the world that are certain to place enormous demands on our employees and resources. In certain cases, we have prioritized the implementation of the Committee's work to address the most critical changes first.

- Communication. One of the five broad priorities that run through the Committee's recommendations is enhancing transparency of communication and disclosure. For example, as noted in Recommendation 4, the new Client and Business Standards Committee will oversee a firmwide client franchise enhancement program. This program will include dialogue with our clients about the work of the Business Standards Committee. We also expect to have dialogue with our shareholders and the investor community about certain changes we are making, such as the changes in our financial disclosures. In

addition, we will continue to post our regulators on the progress of our implementation of the recommendations.

- Follow-Up and Evaluation. The real test of success of the Business Standards Committee process will be whether the recommendations bring about the desired improvements in business standards and behavior. Accordingly, as implementation occurs over the next year and beyond, we will need to develop mechanisms to realistically evaluate how well we are meeting our underlying objectives.

C. TRAINING AND PROFESSIONAL DEVELOPMENT

For our business standards to adapt and change, our people need to adapt and change. Training and professional development is the essential tool in that process of adaptation and change because it reaches our people directly and in a strong and meaningful way.

The recommendations in this report have substantial training requirements. These requirements are in some cases firmwide initiatives and, in others, divisional and business-specific initiatives. For many firmwide initiatives, the training will have to reach all our people. For division or business-specific initiatives, the training will also have to reach large audiences. For example, we anticipate that the training on structured products, which will be highly specialized and intensive, will be rolled out globally to over 2,100 professionals in the Securities and Investment Management Divisions.

In light of the scale of this effort, we have created a Training Oversight Group consisting of senior business leaders. Each training initiative has a “Training Owner” responsible for roll out and for overseeing the development of the training curriculum for their programs. In areas such as Structured Products and Conflicts of Interest where significant changes are being introduced, the training materials will be very detailed and time consuming to develop. As necessary, Training Owners will work with outside vendors to develop the curriculum and content.

In developing a roll out plan for the training initiatives, we have analyzed a number of different factors. For example, we considered whether the training program needs to address a change in our organizational structure (e.g., the movement of a business unit), a change in our policies and procedures (e.g., updated written communication guidelines), or a change to our technology. The firm has also considered whether the training initiative should apply firmwide (e.g., training regarding the client service values) or should be targeted to a specific division or business unit (e.g., training regarding new disclosure and origination standards for newly issued securities

products). We also identified a target audience for each training program. These audiences can include employees with specific titles and levels of seniority as well as employees with specific experience levels (e.g., experienced new employees versus recent graduate employees).

D. DOCUMENTATION

Written policies and procedures are an essential component of the compliance culture at Goldman Sachs. A critically important part of implementing the work of the Business Standards Committee involves updating and / or writing new policies, procedures and other key documents. The Committee places great importance on documentation because it is a key element in ensuring accountability. While long-standing business practices may develop without formal codification, there is a significant risk that good practices may not endure without documentation, particularly given employee turnover, and that accountability will be lost.

The Committee's recommendations will require a number of new documents as well as updating and revision of existing policies, procedures and documentation. An inventory of documentation updates and new documentation requirements (Documentation Inventory) has been created and a senior leader from either the Legal Department or the Compliance Department (or individual business units as necessary) has been assigned ownership as the document owner of each item included in the Documentation Inventory.

As part of the written implementation plans, a proposed timeframe has been identified for each item on the Documentation Inventory, recognizing that document owners will need the flexibility to adjust schedules and prioritize items which mitigate the greatest risks and are responsive to regulatory developments.

E. THE BUSINESS STANDARDS COMMITTEE EFFORTS IN PERSPECTIVE

In every case, we expect to verify when the implementation, training initiatives and documentation updates relating to the Business Standards Committee effort are complete. However, the critical, long term question is whether implementation of the recommendations as a whole has had a meaningful and sustained impact on our business standards and culture, particularly with respect to client service and reputational excellence. Looked at in that light, the ultimate success of the Business Standards Committee effort will need to be judged over an extended period of time through a combination of self-evaluation and feedback from our clients and our other stakeholders.

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Business Standards Committee

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Gwen R. Libstag
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and Conflicts Clearance Group

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