



December 19, 2017

Mr. Lloyd Blankfein  
Chairman and Chief Executive Officer  
The Goldman Sachs Group, Inc.  
200 West Street  
New York, New York 10282

Dear Mr. Blankfein:

On July 1, 2017, the Board of Governors of the Federal Reserve System (Board) and the Federal Deposit Insurance Corporation (FDIC) (together, the Agencies) received the annual resolution plan submission (2017 Plan) of The Goldman Sachs Group, Inc. (GS) required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 and 12 CFR Part 381 (the Resolution Plan Rule). The Agencies have reviewed the 2017 Plan taking into consideration section 165(d) of the Dodd-Frank Act, the Resolution Plan Rule, the letter that the Agencies provided to GS on April 12, 2016 (the 2016 Letter) regarding GS's 2015 resolution plan submission (2015 Plan), the joint "*Guidance for 2017 Resolution Plan Submissions By Domestic Covered Companies that Submitted Resolution Plans in July 2015*" (the 2017 Plan Guidance), other guidance provided by the Agencies and supervisory information available to the Agencies.

In reviewing the 2017 Plan, the Agencies noted meaningful improvements over prior resolution plan submissions of GS. Among other things, the Agencies reviewed the 2017 Plan with respect to the shortcomings in GS's 2015 Plan. Based upon their review of the 2017 Plan, the Agencies have jointly decided that the 2017 Plan satisfactorily addressed these shortcomings, as discussed in section I, below. Nonetheless, the Agencies have identified one shortcoming in the 2017 Plan, as discussed in section II, below. The Agencies will review the plan due on July 1, 2019 (2019 Plan) to determine if GS has satisfactorily addressed the shortcoming. If the Agencies jointly decide that this matter is not satisfactorily addressed in the 2019 Plan, the Agencies may determine jointly that the 2019 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

#### **I. Background and Progress**

Section 165(d) of the Dodd-Frank Act requires that each bank holding company with \$50 billion or more in total consolidated assets and each designated nonbank financial company report to the Agencies the plan of such company for its rapid and orderly resolution in the event of material financial distress or failure. Under the statute, the Agencies may jointly determine, based on their review, that the plan is “not credible or would not facilitate an orderly resolution of the company under Title 11, United States Code.”<sup>1</sup> The statute and the Resolution Plan Rule provide a process by which the deficiencies jointly identified by the Agencies in such a plan may be remedied.

In addition to the Resolution Plan Rule, the Agencies have provided supplemental written guidance to assist GS's development of a resolution plan that satisfies the requirements of

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<sup>1</sup> 12 U.S.C. § 5365(d)(4).

section 165(d) of the Dodd-Frank Act.<sup>2</sup> The Agencies have also provided ongoing engagement with GS to facilitate the development of its 2017 Plan. The Agencies' staffs have met with GS frequently since April 2016 to answer questions related to the 2017 Plan.

In July 2017, the Agencies received the 2017 Plan and began their review to determine whether the 2017 Plan satisfies the requirements of section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule. As part of their review, the Agencies assessed whether the 2017 Plan satisfactorily addressed each of the shortcomings identified in the 2016 Letter. The Agencies also assessed whether the 2017 Plan satisfactorily addressed each of the key vulnerabilities in resolution identified in the 2017 Plan Guidance. As noted in previous communications, actions to enhance resolvability generally were expected to be fully implemented no later than the date of the 2017 Plan.<sup>3</sup>

#### *Progress Made by GS*

Following receipt of the 2016 Letter, GS has taken important steps to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy. These steps include those taken

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<sup>2</sup> Most recently, this guidance has included:

- The 2016 Letter, which identified shortcomings in the 2015 Plan and stated that if the Agencies jointly decide that these matters are not satisfactorily addressed in the 2017 Plan, the Agencies may determine jointly that the 2017 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.
- The 2017 Plan Guidance, which described the Agencies' expectations regarding the 2017 Plan and highlighted specific areas where additional detail should be provided and where certain capabilities or optionality should be developed to demonstrate that the firm has considered fully, and is able to mitigate, obstacles to implementation of the preferred strategy.
- Answers to common and firm-specific questions regarding the 2017 Plan Guidance.

<sup>3</sup> See the 2016 Letter.

to address the requirements of the Board's resolution-related rules regarding total loss-absorbing capacity, clean holding companies,<sup>4</sup> and stays of qualified financial contracts.<sup>5</sup>

GS has taken other significant steps. These include (i) improving its capital and liquidity capabilities by developing approaches to estimate stand-alone financial resource needs for each material entity; (ii) linking measures of estimated financial resource needs to available resources to inform the timely filing of the parent company's bankruptcy; (iii) developing a framework for the pre-positioning of capital and liquidity at material entities; (iv) funding a subsidiary that would allocate resources to material entities during resolution as needed; (v) entering into a contractually binding mechanism designed to provide capital and liquidity support to material entities; (vi) creating a framework to govern escalation of information in support of timely decision-making; (vii) modifying its service contracts with key vendors to include provisions intended to ensure the continuation of services; (viii) pre-positioning working capital in service-providing entities; (ix) developing and significantly enhancing playbooks to support continued access to payment, clearing, and settlement activities; (x) simplifying its ownership structure by incorporating clean lines of ownership throughout the organization, including by reducing and reorganizing its legal structure and grouping entities under common intermediate holding companies to align service entities and facilitate the sale of businesses; (xi) improving its derivatives booking practices and its capabilities to monitor risks under various wind-down scenarios; (xii) identifying and documenting its shared services capabilities for service level agreements; (xiii) providing legal and operational support for its proposed strategy, including

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<sup>4</sup> See 12 CFR 252.60-.65. This rule generally requires GS to maintain capital and long-term debt outstanding to absorb potential losses following entry into bankruptcy and to not enter into certain financial arrangements that would create obstacles to an orderly resolution.

<sup>5</sup> See 12 CFR 252.81-.88. This rule generally requires GS and certain of its subsidiaries to amend their qualified financial contracts to stay the exercise of default rights that could undermine the firm's resolution strategy.

drafting bankruptcy documents, and implementing capabilities designed to cull all necessary information in support of a bankruptcy filing within 48 hours; and (xiv) providing a detailed summary of early stress indicators, requisite board involvement, and potential wind-down scenarios of 12, 18, and 36 months.

Finally, GS has adequately addressed the shortcomings identified in the 2016 letter. In response to the firm's derivatives shortcoming, GS provided a detailed analysis on how to segment, package, and wind down its derivatives portfolio; provided information requested in the derivatives tables; analyzed the degree of transactional interconnections among affiliates; and incorporated the estimates into its methodology for estimating the capital and liquidity its material entities need to execute the firm's preferred resolution strategy.

In response to the firm's liquidity shortcoming, GS developed a methodology for estimating the liquidity needs of its material entities to stabilize after the parent's bankruptcy filing and provided detailed information and analysis regarding liquidity needed by each material entity, a forecast of daily outflows (with sources and uses), and a breakout of inter-affiliate flows and arrangements that could impact material entity liquidity forecasts.

In response to the governance mechanism shortcomings, the firm linked its trigger framework to specific actions board and senior management would consider taking at each of the trigger points. Additionally, the firm established a two-stage final trigger that would cause the board of GS to determine whether the firm had sufficient available liquidity to complete its resolution strategy. The firm also included relevant legal analysis of the potential challenges and mitigants to its planned support of material entities before bankruptcy, developed mitigants (e.g., contractually binding mechanism, funding subsidiary) to those challenges, and incorporated these developments into its governance playbooks. And in response to the operational

shortcoming, GS included additional development of its single-point-of-entry bankruptcy structure and provided draft documents supporting its strategy (e.g., first day motions) and detailing the issues a bankruptcy court would likely consider and the best arguments in support of requested relief. Finally, in response to agency concerns, GS revised its runway assumptions.

## **II. Shortcoming Regarding Separability Analysis**

The Agencies identified a shortcoming regarding GS's separability analysis related to the actionability of divestiture options. The 2017 Plan did not include sufficient documentation and analysis relating to impediment identification and mitigation, which raises questions regarding the degree to which identified divestiture options are actionable.

While the firm did identify and assess potential impediments to the actionability of its divestiture options, the analysis presented was not sufficiently detailed and was not linked to detailed mitigation strategies that could be taken by the firm to address the impediments, if needed. For example, two divestiture options — Private Wealth Management and Commodities — are dependent on the firm for operational and technological support. The playbooks for these divestiture options identify these dependencies and map them at a high level; however, these playbooks do not sufficiently analyze the extent to which these dependencies may impede a divestiture. This raises questions regarding whether all potential impediments have been fully analyzed and whether they could be mitigated through *ex ante* actions or strategies that could be employed during divestiture execution.

To address this shortcoming, the firm's 2019 Plan should provide a comprehensive analysis of potential significant impediments to execution for each divestiture option, along with clear mitigating strategies that could be taken, if needed, to address those impediments.

If the Agencies jointly decide that this shortcoming is not satisfactorily addressed in the 2019 Plan, the Agencies may determine jointly that the 2019 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

### **III. Conclusion**

In their review of the July 2017 resolution plans, the Agencies also identified four common areas where more work may need to be done to improve the resolvability of the firms: intra-group liquidity; internal loss absorbing capacity; derivatives; and payment, clearing, and settlement activities. Next year the Agencies intend to clarify improvements that should be reflected in the firms' next resolution plans, which are due on July 1, 2019. The Agencies are also considering ways to streamline the resolution plan submission process to allow more time for firms to make progress on resolvability before submitting plans to the Agencies.

The resolvability of firms will change as markets change and as firms' activities, structures, and risk profiles change. The Agencies expect firms to continue to address the resolution consequences of their day-to-day management decisions.

If you have any questions about the information communicated in this letter, please contact the Agencies.

Sincerely,

*Ann E. Misback (Signed)*

Ann E. Misback  
Secretary of the Board  
Board of Governors of the Federal  
Reserve System

Sincerely,

*Robert E. Feldman (Signed)*

Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation