

17

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

THE GOLDMAN SACHS GROUP, INC.
New York, New York

Docket No. 18-015-B-HC
18-015-CMP-HC

Order to Cease and Desist and
Order of Assessment of a Civil
Money Penalty Issued Upon
Consent Pursuant to the Federal
Deposit Insurance Act, as
Amended

WHEREAS, The Goldman Sachs Group, Inc., New York, New York (“GS Group”), a registered bank holding company, indirectly owns and controls Goldman Sachs & Co. LLC (f/k/a Goldman, Sachs & Co.), Goldman Sachs International, a U.S. insured depository institution, and multiple other nonbank subsidiaries (together, the “Firm”);

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal banking agency supervisor of GS Group;

WHEREAS, GS Group oversees compliance, risk management, and audit procedures for entities within the Firm;

WHEREAS, GS Group serves as a foreign exchange (“FX”) dealer through certain of its indirect subsidiaries (“FX Subsidiaries”), both in the United States and in its offices abroad, by buying and selling U.S. dollars and foreign currency for their own account and by soliciting and receiving orders through communications between customers and sales personnel that are executed in the spot market (“Covered FX Activities”);

WHEREAS, in soliciting and receiving orders from customers in their Covered FX Activities, personnel of the FX Subsidiaries may provide customers with, among other things, price quotes for specific prospective transactions and the prices and amounts of currency purchased or sold in trades based on customers' orders;

WHEREAS, in addition to soliciting and receiving orders from customers in Covered FX Activities, the Firm engages in other trading activities and related sales activities involving FX, including FX trading where a customer directly inputs an order through an electronic platform, and in wholesale markets for commodities and interest rate products where the Firm acts as principal, prices and rates are or can be influenced by industry benchmark prices or rates, and compliance and control risk factors and vulnerabilities are similar to those related to Covered FX Activities (together with Covered FX Activities, "Designated Market Activities");

WHEREAS, the Board of Governors expects the Firm to have an effective and comprehensive compliance risk management framework that includes strong governance over compliance risk at all levels of management, appropriate policies and procedures, rigorous surveillance and escalation mechanisms, and staff training programs that thoroughly address compliance risks;

WHEREAS, the Firm has conducted a review of its Covered FX Activities occurring from October 2008 through October 2012 (the "Review Period"), has identified and reported relevant conduct to the Board of Governors and the Federal Reserve Bank of New York ("Reserve Bank"), has fully cooperated with the Board of Governors and the Reserve Bank, and has made and continues to make progress in implementing enhancements to its Firm-wide compliance systems and controls that are designed to address deficiencies in the Firm's Covered FX Activities;

WHEREAS, the Board of Governors has been conducting an investigation into the practices of the Firm relating to FX activities;

WHEREAS, during the Review Period:

A. The Firm lacked adequate governance, compliance risk management, compliance and/or audit policies and procedures to ensure that the FX Subsidiaries' Covered FX Activities complied with safe and sound banking practices and applicable internal policies;

B. Certain of the FX Subsidiaries' FX spot market traders communicated with FX traders at other financial institutions through chatrooms on electronic messaging platforms accessible by traders at multiple institutions;

C. The Firm's deficient policies and procedures prevented it from detecting and addressing potentially unsafe and unsound conduct by certain of the FX Subsidiaries' FX traders, including in communications by traders in multibank chatrooms, consisting of:

(i) disclosures to traders of other institutions of confidential customer information of the FX Subsidiaries;

(ii) discussions with traders of other institutions about anticipated FX benchmark fix-related trading;

(iii) discussions with traders of other institutions regarding bid/offer spreads offered to FX customers; and

(iv) trading strategies that raised potential conflicts of interest.

D. As a result of deficient policies and procedures described above, the Firm engaged in unsafe and unsound banking practices.

WHEREAS, the Firm has undertaken comprehensive group-wide compliance and conduct remediation initiatives, consisting of enhancements to its policies and procedures,

supervisory oversight, employee training, and surveillance mechanisms, and is committed to remediating the risks identified in the review into the Covered FX Activities;

WHEREAS, to address the deficiencies described above, the Firm has made and must continue to implement additional improvements in its internal controls, compliance, risk management and audit programs for Designated Market Activities in order to comply with Firm-wide policies, safe and sound banking practices, and applicable U.S. laws and regulations;

WHEREAS, the Board of Governors, the Reserve Bank, and GS Group have the common goal to ensure that the Firm conducts its activities in a safe and sound manner and complies with U.S. laws, rules, and regulations that apply to the activities of the Firm, and that GS Group fosters a strong Firm-wide commitment towards compliance;

WHEREAS, the Board of Governors is issuing this Consent Order to Cease and Desist and Assessment of Civil Money Penalty ("Order");

WHEREAS, pursuant to delegated authority, Gregory K. Palm is authorized to enter into this Order on behalf of the Firm, and, respectively consent to compliance with each and every provision of this Order by the Firm, and to waive any and all rights that each may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of the Order or any provision hereof:

NOW, THEREFORE, it is hereby ordered by the Board of Governors that, before the filing of the notices, or taking of any testimony, or adjudication of or finding on any issues of

fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (3) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(3)), the Firm and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(3)), shall cease and desist and take affirmative action as follows:

Internal Controls and Compliance Program

1. Within 90 days of this Order, GS Group shall submit an enhanced written internal controls and compliance program acceptable to the Reserve Bank to comply with applicable U.S. laws and regulations with respect to the Firm's Designated Market Activities. The program shall, at a minimum, address, consider, and include:

(a) enhancement of comprehensive policies and procedures to ensure compliance with applicable U.S. laws and regulations by the Firm's business lines that engage in Designated Market Activities, and a review of the Firm's policies and procedures relating to the Firm's Designated Market Activities, including conflict of interest policies, customer confidentiality policies, and a code of conduct or other statement of conduct or policies;

(b) provisions that clearly identify the Designated Market Activities covered by the policies and procedures;

(c) measures to ensure compliance with policies and applicable U.S. laws and regulations applicable to Designated Market Activities by the Firm's global business lines;

(d) the duties and responsibilities of personnel responsible for overseeing compliance with policies and procedures relating to the Firm's Designated Market Activities, including the reporting lines within the Firm;

(e) policies and procedures that define management responsibilities and establish accountability within all business lines that engage in Designated Market Activities;

(f) a comprehensive and effective system of internal controls to monitor and detect potential employee misconduct in connection with the Firm's Designated Market Activities, which shall include, but not be limited to transaction monitoring and communication surveillance that is commensurate with the level and nature of the risks inherent in the market;

(g) policies and procedures to ensure that sales personnel and traders do not communicate inaccurate or misleading information to customers regarding: (i) the amount of markup, commission, or other service charge applied to customer orders by the Firm; and (ii) how orders are executed by the Firm;

(h) a code of conduct or other statement of conduct or policies for employees engaged in Designated Market Activities that establishes rules and procedures governing, among other matters, (i) the types of communications media employees may use to communicate with employees at other institutions that trade in the same financial instruments or products and the circumstances when employees may use these communications media; (ii) the types of trading information of the firm that may be disclosed to employees of other institutions that trade in the same financial instruments or products; (iii) the types of information and circumstances under which confidential customer information may be shared outside of the Firm; and (iv) appropriate conduct in responding to potential conflicts of interest with customers that place orders for execution by the Firm, including procedures for the timing of the execution of customer orders;

(i) a compliance reporting process for the Firm's Designated Market Activities that is widely publicized within the global organization and integrated into the Firm's

other reporting systems, through which employees can report potential violations of Firm's policies and U.S. law and regulations, and that includes a process designed to ensure that known or suspected violations are promptly escalated to appropriate personnel for appropriate resolution and reporting; and

(j) training for the Firm's employees engaged in Designated Market Activities in the Firm's policies and U.S. laws and regulations relating to the employee's job responsibilities that is provided on an ongoing, periodic basis.

Compliance Risk Management Program

2. Within 90 days of this Order, GS Group shall submit a written plan acceptable to the Reserve Bank to improve its compliance risk management program with regard to compliance by the Firm with applicable U.S. laws and regulations with respect to Designated Market Activities Firm-wide. The plan shall, at a minimum, address, consider, and include:

(a) identification of all business lines that engage in Designated Market Activities and the attendant legal and compliance risks to ensure that such activities are appropriately risk-rated and included in the Firm-wide compliance risk assessment;

(b) completion, within 90 days of the Reserve Bank's approval of the plan, of a Firm-wide risk assessment to evaluate current potential conduct risks associated with all areas relating to the Firm's Designated Market Activities;

(c) prior to trading new financial products or instruments in connection with the Firm's Designated Market Activities, a review of potential risks, including, but not limited to, reputational risk, fraud risk, and potential for misconduct associated with the proposed new activity;

(d) development of comprehensive risk assessment processes for the Firm's Designated Market Activities, which shall identify: (i) the scope and frequency of such reviews, (ii) compliance risks, and (iii) all applicable risk factors and mitigating controls; and

(e) measures to ensure that material risk management issues related to potential employee misconduct in connection with the Firm's Designated Market Activities are escalated to and addressed in a timely manner by senior management and the board of directors or a committee thereof, as appropriate.

Controls Review

3. (a) During the term of this Order, to ensure that the internal controls of the Firm required under paragraph 2 of the Order are functioning effectively to detect, correct, and report misconduct with regard to Designated Market Activities that are required to comply with applicable U.S. laws and regulations, Firm management, utilizing personnel who are independent of the business line and acceptable to the Reserve Bank, shall conduct on an annual basis: (i) a review of compliance policies and procedures applicable to the Firm's Designated Market Activities and their implementation, and (ii) an appropriate risk-focused sampling of other key controls for the Firm's Designated Market Activities (the "Controls Review").

(b) The results of each Controls Review shall be submitted to the Reserve Bank within 90 days of the corresponding anniversary date of this Order. Upon request, the Firm shall provide to the Reserve Bank the materials relied upon in conducting each Controls Review.

Internal Audit

4. Within 90 days of this Order, GS Group shall submit an enhanced written internal audit program acceptable to the Reserve Bank with respect to the Firm's compliance with

applicable U.S. laws and regulations as well as the Firm's internal policies and procedures in its Designated Market Activities. The program shall, at a minimum, address, consider, and include:

- (a) periodic internal audit reviews of business line controls and compliance detection and monitoring processes, as applicable, designed to identify and prevent potential misconduct in connection with the firm's Designated Market Activities;
 - (b) enhanced escalation procedures for the timely resolution of material audit exceptions and recommendations in connection with the firm's Designated Market Activities;
- and
- (c) the periodic review of risk assessments to ensure emerging risks associated with the Firm's Designated Market Activities are appropriately identified and monitored.

Assessment of Civil Money Penalty

5. The Board of Governors hereby assesses a civil money penalty in connection with Covered FX Activities in the amount of \$54,750,000, which shall be remitted by the Firm at the time of the execution of this Order by Fedwire transfer of immediately available funds to the Federal Reserve Bank of Richmond, ABA No. 1000033, beneficiary, Board of Governors of the Federal Reserve System. This penalty is a penalty paid to a government agency for a violation of law for purposes of 26 U.S.C. § 162(f) and 26 C.F.R. § 1.162-21. The Federal Reserve Bank of Richmond, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of the Treasury, pursuant to section 8(i) of the FDI Act (12 U.S.C. § 1818(i)).

Approval, Implementation, and Progress Reports

6. (a) GS Group shall submit the written plans and programs that are acceptable to the Reserve Bank as set forth in paragraphs 1, 2 and 4 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program;

(b) Within 10 days of approval by the Reserve Bank, the Firm shall adopt the approved plans and programs. Upon adoption, the Firm shall promptly implement the approved plan and programs and thereafter fully comply with them.

(c) During the term of this Order, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

7. Within 30 days after the end of the first full calendar quarter following the date of this Order, and quarterly thereafter, the Firm shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof.

Accountability for Employees Involved in Misconduct

8. The Firm shall not in the future directly or indirectly retain any individual as an officer, employee, agent, consultant, or contractor of the Firm or of any subsidiary thereof who, based on the investigative record compiled by the Firm, has done all of the following: (i) participated in the misconduct underlying this Order, (ii) been subject to formal disciplinary action as a result of the Firm's internal disciplinary review or performance review in connection with the conduct described above, and (iii) either separated from the Firm or any subsidiary thereof or had his or her employment terminated in connection with the conduct described above.

9. The Firm shall continue to fully cooperate with and provide substantial assistance to the Board of Governors, including, but not limited to, the provision of information, testimony, documents, records, and other tangible evidence and perform analyses as directed by the Board of Governors in connection with the investigations of whether separate enforcement actions should be taken against individuals who are or were institution-affiliated parties of the Firm and who were involved in the misconduct underlying this Order. For purposes of clarity and not limitation, substantial assistance as used in this Order means the Firm will use its best efforts, as determined by the Board of Governors, to make available for interviews or testimony, as requested by the Board of Governors, present or former officers, directors, employees, agents and consultants of the Firm. This obligation includes, but is not limited to, sworn testimony pursuant to administrative subpoena as well as interviews with regulatory authorities. Cooperation under this paragraph shall also include identification of witnesses who, to the knowledge of the Firm, may have material information regarding the matters under investigation, and the preparation and provision of trading analyses.

Notices

10. All communications regarding this Order shall be sent to:
- (a) Richard M. Ashton
Deputy General Counsel
Patrick Bryan
Assistant General Counsel
Board of Governors of the Federal Reserve System
20th & C Streets, N.W.
Washington, D.C. 20551
 - (b) Martha Cummings
Senior Vice President
Federal Reserve Bank of New York
33 Maiden Lane
New York, NY 10045

(c) David A. Markowitz
The Goldman Sachs Group, Inc.
200 West Street
New York, New York 10282

Miscellaneous

11. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Firm to comply with this Order.

12. The provisions of this Order shall be binding upon the Firm and each of its institution-affiliated parties, in their capacities as such, and their successors and assigns.

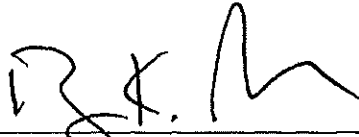
13. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Board of Governors.

14. Except as otherwise provided in this paragraph, the Board of Governors hereby agrees not to initiate any further enforcement actions, including for civil money penalties, against the Firm, and its affiliates, successors and assigns, with respect to the conduct involving Covered FX Activities described in the WHEREAS clauses of this Order to the extent known by the Board of Governors as of the effective date of this Order. This release and discharge shall not preclude or affect (i) any right of the Board of Governors to determine and ensure compliance with this Order, (ii) any proceedings brought by the Board of Governors to enforce the terms of this Order, or (iii) any proceedings brought by the Board of Governors against individuals who are or were institution-affiliated parties of the Firm.

15. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto and their successors hereunder, any legal or equitable right, remedy, or claim under this Order.

By Order of the Board of Governors of the Federal Reserve System effective this ____ day
of _____, 2018.

THE GOLDMAN SACHS GROUP, INC.

By: 

Gregory K. Palm
Executive Vice President & General
Counsel

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: _____
Ann E. Misback
Secretary of the Board

By Order of the Board of Governors of the Federal Reserve System effective this 1st day
of May, 2018.

THE GOLDMAN SACHS GROUP, INC.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: _____
Gregory K. Palm
Executive Vice President & General
Counsel

By: Margaret M. Shanks
Margaret McCloskey Shanks
Deputy Secretary of the Board