

March 15, 2018

Via E-mail

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Proposed Supervisory Guidance on Management of Business Lines and Independent Risk Management and Controls for Large Financial Institutions — Docket No. OP – 1594

Ladies and Gentlemen:

The Goldman Sachs Group, Inc. (“Goldman Sachs” or “the firm”) is pleased to comment on the above-captioned proposed supervisory guidance (“the Guidance”) issued by the Board of Governors of the Federal Reserve System (“the Federal Reserve” or “FRB”) which sets forth core principles of effective senior management, the management of business lines, and independent risk management (“IRM”) and controls for large financial institutions (“LFIs”). This Guidance is part of a broader initiative by the Federal Reserve to develop a supervisory rating system and related supervisory guidance that would align with its consolidated supervisory priorities for LFIs.

We commend the Federal Reserve for undertaking the important task of providing additional guidance on supervisory expectations as the rating system for LFIs is adjusted to re-align with supervisory priorities for these firms. As noted in the preamble to the Guidance, the objective of the additional guidance is to “consolidate and clarify the Federal Reserve’s existing supervisory expectations regarding risk management” to “enable the Federal Reserve to provide firms with more specific and consistent supervisory feedback.” We strongly support these objectives of increased clarity, transparency and consistency. We also agree that continued dialogue through future proposals and comment periods will further these goals.

We have contributed to industry discussions on the Guidance and we support the comment letters submitted by The Clearing House and the American Bankers Association. Given the focus we place on our ability to effectively manage the risks of our firm, we would like to highlight select specific comments made in those letters. We set out our comments below.

Principles-based Approach

We support the FRB’s principles-based approach. The FRB’s focus on principles should encourage LFI firms to pursue the shared objective of safety and soundness while allowing flexibility needed to consider methods, processes and organizational structures that best address

each firm's risks. This flexibility is important for encouraging the development of robust risk management practices that adapt to changing market conditions and organizational characteristics. Overly-prescriptive requirements and dictated structures not only impede efficiency, but also may erode firms' sense of accountability for risk management.

As an example, the requirements regarding breaches, exceptions and waivers for risk limits do not consider materiality or risk-sensitivity. We consider this approach to be more prescriptive than necessary, especially as it could incentivize firms to reduce the granularity of limits in order to comply with these specific requirements. In practice, firms may use limits for a variety of reasons including but not limited to monitoring changes in risk levels. For example, at Goldman Sachs, we may set certain limits at levels that will require periodic adjustment, rather than at levels which reflect our maximum risk appetite. We believe this fosters an ongoing dialogue on risk among business lines, independent risk management and control functions, committees, and senior management, as well as the rapid escalation of risk matters.

We recommend that the Guidance be revised to clarify the FRB's intention to give firms the flexibility to determine the appropriate escalation and remediation framework for their limit structure which gives consideration to risk-sensitivity and the intended use of the limit, prior to requiring escalation to senior management or "strictly prohibiting" activities following a breach.

We also emphasize the importance of the examination staff implementing the principles-based approach in practice in a manner that is consistent with principles of due process. Examiners should not view the expectations set forth in the Guidance as a checklist of requirements or the equivalent of a mandate. Any further expectations or requirements generated by examination staff in their review of the application of this Guidance should be implemented in a manner that provides financial institutions sufficient notice, opportunity to comment and a reasonable period of time to comply before resulting in adverse supervisory consequences.

Duplication of Certain Roles and Responsibilities

From a risk management perspective, the goal of safety and soundness of financial institutions is best accomplished through clear ownership of roles and responsibilities. The delineation of roles and responsibilities for risk management activities enables a risk management framework that ensures accountability.

With this in mind, we encourage the FRB to eliminate those instances in the Guidance where more than one party is given responsibility for a certain risk management activity. Requiring both business line management and IRM to conduct the same processes will not only result in unwarranted duplication of effort, but could also dilute the sense of accountability held by either party.

For example, the Guidance suggests that both IRM and business line management are expected to report to senior management regarding the business line's risk profile and its alignment with the firm's risk tolerance which could be interpreted as requiring both groups to produce competing risk reports for senior management. This may lead to an unnecessary duplication of efforts and potentially create confusion for senior management without necessarily further enhancing the safety and soundness of firms.

We believe that safety and soundness would be best served by allowing firms the flexibility to determine whether specific risk management functions are best suited to be performed by business lines, with IRM reviewing and challenging, or whether IRM should perform those

functions. This approach would enable firms to establish clear accountability for risk management activities while taking into account their unique structures organizations and risk profiles. It would also facilitate the appropriate allocation of time and resources toward risk management activities that directly enhance safety and soundness.

Definitions of Senior Management and Business Line

While we are pleased to see that the Guidance states that “the proposed guidance does not include specific expectations regarding organizational structure at firms”, we would recommend that the FRB take a similar approach for the definitions of “senior management” and “business lines”. Specifically, we would recommend that those definitions include similar qualifications that allow firms to manage organizational structures that are best suited to their unique business and risk profile and to define “senior management” and “business line” in accordance with that organizational structure.

For example, the Guidance defines “senior management” as individuals who are “directly accountable to the Board of Directors”, which could be interpreted as only executives who have a direct reporting line to the Board or a committee thereof. In reality, firms may define senior management as including members of the most senior management committees of the firm.

Additionally, we would propose that the definition of business line as a “defined unit or function of a financial institution, including associated operations and support” be similarly qualified to allow firms the flexibility to determine what constitutes a unique business line and whether the various operation and support functions are considered integrated or standalone.

The above recommendations are consistent with the FRB’s emphasis on a principles-based approach to risk management and will avoid the creation of a “one-size-fits-all” risk management regime.

Scope and Timing of Implementation

We see tremendous value in the FRB harmonizing its Guidance with that of other financial regulators, where appropriate. This will not only reduce the regulatory burden of complying with multiple sets of potentially contradictory requirements, but will also increase the clarity and coherence of the expectations which will better serve the ultimate goal of safety and soundness. However, we caution that harmonization should not be achieved by applying the most stringent and prescriptive of all of the existing requirements across regulatory bodies in a manner that fails to recognize the unique risk profiles of financial institutions and undermines their competitiveness. Rather, we encourage the various financial regulators to agree upon common principles of appropriate risk management.

Additionally, the FRB should make clear that this Guidance supersedes existing regulatory guidance or requirements for risk management that conflicts with the final Guidance. This would be consistent with the FRB’s intention to “consolidate and clarify ...existing supervisory expectations regarding risk management” and would avoid unnecessary complexity in the regulatory examination process.

Finally, the Guidance indicates that the proposed LFI rating system guidance may be finalized prior to the Risk Management guidance, in which case, the FRB would use existing supervisory guidance to help inform its evaluation of each firm’s governance and controls for purposes of LFI ratings. Given the objective of enabling the FRB to provide firms with more specific and

consistent supervisory feedback and the complementary nature of the three related guidances (Board Effectiveness, LFI Rating Systems and Risk Management), we encourage coordination in the timing of implementation to avoid a piecemeal implementation that may unnecessarily complicate efforts to comply and harm the FRB's efforts to more closely align supervisory practices with its supervisory priorities.

We appreciate your consideration of these comments, and we reiterate our support for the Federal Reserve's efforts to align the ratings systems more closely with its strategic priorities and provide enhanced clarity and consistency to its ratings by providing additional guidance. Furthermore, we wish to express our continued support and encouragement in our shared goal of ensuring the continued safety and soundness of the U.S. financial system. We would be pleased to discuss these comments with you in more detail and to provide additional information that might be helpful.

Sincerely,



Robin Vince

Chief Risk Officer

The Goldman Sachs Group, Inc.