



# Completed and Ongoing Enhancements Since the 1MDB Transactions

October 2020



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- Since the 1MDB transactions, Goldman Sachs has taken significant actions to address issues raised by those transactions
- Initially, we focused on the processes surrounding review and approval of complex transactions, including the heightened risk of reputational consequences that such transactions bring. Specifically, we focused on:
  - Ensuring that we have sufficient controls to prevent business considerations from overriding control-side concerns
  - Increasing the understanding of employee responsibility to escalate signs of inappropriate behavior or control transgressions
  - Requiring additional focus on the review of transactions that might cause reputational risk
  - Improving documentation and evidence of the committee discussions regarding transactions that might cause reputational risk
  - Addressing transactions that might have reputational risks early enough to reduce the possibility of momentum “carrying them over the line”
  - Ensuring additional focus on transactions with large, “day-one” P&Ls, and/or those deemed “significant and complex”
- In recent years, we have made further enhancements. These include:
  - Exercising heightened scrutiny of senior level people engaged in high risk areas, business or products
  - Reviewing the firm’s committee structure to ensure it is fit for purpose
  - Ensuring greater focus and additional actions when “red flags” are identified
  - Further developing targeted e-communication surveillance based on new emerging technology
  - Improving training on compliance responsibilities firmwide
  - Enhancing the firm’s systems and controls to prevent and detect money laundering and bribery-related behavior by the firm and its clients
- We have identified and developed actions and programs to address each of these issues, with the end result being a significant change in our day-to-day processes in the years since the 1MDB transactions
- As industry risks continue to evolve, we are never truly done uplifting our Compliance Program or Reputational Risk Framework. We will continue making enhancements to ensure appropriate controls are in place to minimize the risk of reputational consequences, taking into account lessons learned from internal and external events

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Area for Enhancement	Actions
<b>Compliance Anti-Bribery and Anti-Corruption Controls</b>	<p>Enhance the firm's systems and controls to prevent and detect bribery-related and corruption-related behavior</p> <ul style="list-style-type: none"> <li>■ Broadened our firmwide Intermediary Policy to require notification to the Anti-Bribery Group or the Business Intelligence Group of any new intermediary</li> <li>■ Implemented enhanced due diligence of high-risk vendor relationships and further standardized the firmwide protocol for risk-ranking vendors</li> <li>■ Developed analytics to identify suspicious patterns of travel and entertainment by firm employees</li> <li>■ Lowered the thresholds for review of employee charitable contributions and enhanced anti-bribery certification requirements</li> <li>■ Enhance Intermediary Onboarding:               <ul style="list-style-type: none"> <li>– Refine diligence protocols for third party intermediaries</li> <li>– Enhance systems to screen intermediaries against firmwide database of individuals/entities the firm has declined to do business with</li> <li>– Conduct more frequent and targeted forensics reviews on intermediary engagements</li> <li>– Ensure consistent inclusion of audit rights provision in contracts with higher risk intermediaries</li> <li>– Expand risk-based audits</li> </ul> </li> <li>■ Enhance Third Party Relationships:               <ul style="list-style-type: none"> <li>– Enhance due diligence and screening of high-risk vendors and other third parties</li> </ul> </li> <li>■ Enhance Gifts, Entertainment and Travel Expense Review:               <ul style="list-style-type: none"> <li>– Require division heads and/or regional heads to personally validate the activities, including travel and expenses of their senior salespeople (managing directors and above) periodically and as part of the annual performance review process</li> <li>– Screen reports of gifts and entertainment against firmwide database of entities the firm has declined to do business with</li> <li>– Supplement existing surveillances to identify potential indicators of bribery, fraud or inappropriate conduct</li> </ul> </li> </ul>
<b>Insider Threat</b>	<p>Develop a program to monitor employee behavior that could cause reputational or financial harm to the firm, its employees or its clients</p> <ul style="list-style-type: none"> <li>■ Developed a firmwide Insider Threat Program to create a framework that will actively manage the risk that careless or malicious insiders may cause reputational or monetary harm to the firm, its employees or its clients</li> <li>■ Analyzed historical cases of employee misconduct and studied changes in employee behavior to identify meaningful trends and data points of potential and likely insider threats to develop and enhance on-going surveillances for continuous monitoring</li> </ul>

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## Area for Enhancement

## Actions

### Transactions That Might Cause Reputational Risk & Significant and Complex Transactions (SCTs)

Require additional focus on transactions that might cause reputational risk and Significant and Complex transactions

- Formed a Firmwide Reputational Risk Committee (FRRC), with Management Committee-level representation, to review transactions that might cause reputational risk
- Developed a dynamic reputational risk “grid” to guide control-side and revenue-side on what types of transactions should be reviewed by FRRC and/or Regional Vetting Groups (RVGs) established by FRRC
- Create more formalized vetting requirements relating to how transactions and business opportunities are sourced
- Broaden the review of SCTs by RVGs and relevant transaction committees to scrutinize the P&L of select transactions (i.e., non-G10)
- Enhance the diligence and oversight of the use of proceeds in SCTs and require specific certifications/representations from appropriate officials to validate the actual use of proceeds for certain sovereign-related financings within six months of a transaction closing for those countries deemed higher risk by the Firmwide Financial Crime Compliance Committee
- Create a program whereby separate and independent teams of bankers review key aspects of certain sovereign-related financings before closing, involving transactions for countries identified as higher risk by the Firmwide Financial Crime Compliance Committee and that cross a certain revenue threshold
- Expand Financial Crime Compliance bribery and corruption risk analysis related to SCTs to identify red flags, review intermediary involvement, including its risk profile, and conduct appropriate surveillance of business-side personnel who work on SCTs
- Review SCT framework to ensure risks are being appropriately captured and mitigated (e.g., revisit definition, enhance procedures, review documentation requirements and assess escalation and signoff criteria)

### Senior Scrutiny

Heighten scrutiny of senior level people engaged in high risk areas, businesses or products

- Developed a program to conduct “in-depth” reviews of senior people using all available data, both internal and external
- Reviewed the process for approval of senior people’s travel and entertainment expenses, with particular focus on those in high risk jurisdictions

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<b>Data Driven Compliance</b>	Improve and increase the use of data and metrics within the Compliance Program	<ul style="list-style-type: none"> <li>■ Enhance our data driven Compliance Program by using advanced analytical techniques to facilitate the search of trades, transactions, asset movements and email and voice communications data</li> <li>■ Enhance the insider threat model to incorporate additional data points seeking to identify new signals of employee behavior (considering factors such as compensation information and gifts and entertainment violations) and develop holistic surveillances looking at patterns and trends, not just individual alerts</li> <li>■ Use data and metrics to assess the design, efficacy and performance of our compliance controls</li> </ul>
<b>Control-Side Consideration</b>	Ensure sufficient controls to prevent business considerations from overriding control-side concerns	<ul style="list-style-type: none"> <li>■ Developed a comprehensive Reputational Risk Framework and trained employees on reputational risk</li> <li>■ Changed the composition of key transaction review committees deemed integral to control and reputational risk management processes so that a majority of membership is from the control-side of the firm (e.g., Capital Committee, Suitability Committee)</li> </ul>
<b>Compliance Stature</b>	Ensure Compliance has the proper stature and empowerment to properly challenge the 1 <sup>st</sup> line	<ul style="list-style-type: none"> <li>■ Established Compliance's mandate, which articulates its intent to prevent, detect and mitigate compliance, regulatory and reputational risk across the firm and help to strengthen the firm's culture of compliance</li> <li>■ Completed a review to ensure that the embedded teams who cover revenue-producing employees are completely independent from the business they cover</li> </ul>
<b>Transaction / Approval Decline Process</b>	Improve the documentation and evidence of committee discussions regarding transactions that might cause reputational risk	<ul style="list-style-type: none"> <li>■ Developed a system to track and record all control-side and certain transaction review committee "declines" of transactions for reputational or other reasons</li> <li>■ Created regular reporting of transactions vetted for reputational risk to the Public Responsibilities Committee of the Board, as well as statistics on declined transactions to FRRC</li> <li>■ Ensured committee minutes are kept in sufficient detail to conduct after-the-fact reviews</li> <li>■ Maintained a detailed record of all "conditions" for approval and subsequent follow up</li> </ul>

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Area for Enhancement	Actions
<p><b>Governance, Culture and Conduct</b></p> <p>Develop the use of metrics to track and measure governance, culture and control</p>	<ul style="list-style-type: none"> <li>■ Regularly reported metrics and trends on conduct and culture to management and the Board of Directors</li> <li>■ Developed metrics to track conduct across the firm, making data available to supervisors</li> <li>■ Ensured that all significant conduct flags are directly considered during promotional and compensation processes</li> <li>■ Created and empowered the Firmwide Conduct Committee to oversee the implementation of the firmwide Conduct Risk Program. Comprised of senior managers from both the revenue and control-sides, the Conduct Committee is responsible for setting the strategic agenda for the firm's approach to conduct</li> <li>■ Revise and relaunch the firm's Code of Business Conduct and Ethics to better reinforce our core values and emphasize what we expect from our people</li> <li>■ Launch a firmwide Code of Conduct training campaign to set expectations of employee behavior</li> </ul>
<p><b>Early Intervention</b></p> <p>Address transactions that might have reputational risks early enough to reduce the possibility of momentum "carrying them over the line"</p>	<ul style="list-style-type: none"> <li>■ Formed three RVGs that are staffed solely by control-side personnel and co-chaired by Compliance</li> <li>■ Required transactions that are defined as having potential heightened reputational risk to be vetted by RVGs before moving on to transaction committees</li> <li>■ Empowered RVGs with specific authority to decline transactions</li> </ul>
<p><b>"Red Flags"</b></p> <p>Ensure greater focus and additional actions when "red flags" are identified</p>	<ul style="list-style-type: none"> <li>■ Improved the process of identifying "red flags" and ensuring appropriate response, including increased use of "heightened supervision" as a tool</li> </ul>
<p><b>Escalation Responsibility</b></p> <p>Increase the understanding of employee responsibility to escalate signs of inappropriate behavior or control transgressions</p>	<ul style="list-style-type: none"> <li>■ Developed a specific training program for partners/managing directors on personal responsibility to identify/escalate issues and protect the firm from reputational risk (Chairman's Forum)</li> <li>■ Conducted a training on control-side responsibilities for all control-side vice presidents/managing directors to reinforce the role of the control-side in monitoring and escalating issues</li> <li>■ Conducted awareness training for revenue-side vice presidents on personal responsibility to identify and escalate issues</li> </ul>

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Area for Enhancement		Actions
<b>Surveillance Tools</b>	Further develop targeted e-communication surveillance, based on new emerging technology	<ul style="list-style-type: none"> <li>■ Increased the use of new technology (e.g., natural language processing, AI, machine learning) to provide greater transparency and speed around e-communication surveillance</li> <li>■ Created centers of excellence for e-communication review based on new technology</li> </ul>
<b>Compliance Anti-Money Laundering Controls</b>	Enhance the firm's systems and controls to prevent and detect money laundering by the firm and its clients	<ul style="list-style-type: none"> <li>■ Enhanced the identification and verification of source-of-wealth information for Private Banking clients</li> <li>■ Increased the frequency of refreshing customer due diligence information</li> <li>■ Implemented a "behavioral profile" model to review historic behavioral patterns of transaction activity by non-US financial institution customers</li> <li>■ Implemented the Unusual Movement of Assets surveillance, which seeks to identify transactions that are deemed to represent a higher risk of money laundering, terrorist financing, fraud and other misconduct given certain transactional and client profile- based attributes (e.g., size risk, geographical risk, client and counterparty risk)</li> </ul>
<b>Day-One P&amp;Ls</b>	Focus on transactions with large "day-one" P&Ls	<ul style="list-style-type: none"> <li>■ Refined the Firmwide Suitability Committee charter to require all large "day-one" P&amp;Ls to be specifically reviewed</li> </ul>
<b>Business Integrity Program (BIP)</b>	Provide more opportunities for anonymous employee escalation	<ul style="list-style-type: none"> <li>■ Relunched the Goldman Sachs Business Integrity Program</li> <li>■ Compliance, Legal and Employee Relations coordinate to escalate and investigate reports and track their outcomes</li> <li>■ Periodically host a firmwide Business Integrity Program campaign to increase its awareness and effectiveness</li> </ul>
<b>Committee Structure</b>	Ensure the firm's committee structure is fit for purpose	<ul style="list-style-type: none"> <li>■ Conducted a review of committee structures to ensure mandates are clear and overlap is mitigated</li> </ul>