DPSNMUN'15

30th - 31st October

Letter from the Executive Board

Greetings!

We cordially invite you to meeting of Board of Directors & the Executives of Goldman Sachs on 3rd October, 2008 (the freeze date). The agenda for this meeting is discussion of the "Sub-prime mortgage crisis".

It is nearly impossible to point out one factor as the cause for the crisis; it's indeed a combination of factor that started the financial bubble. One of many theory suggests that the causes of the financial bubble were macro-economic imbalances and financial innovation. In 2007, large current account surpluses developed in Asian Markets as well as oil exporting countries resulting into its counterpart rise in current account deficits in the US and European economies, giving rise to government debt, pushing down the interest rates. Other factor that led to low rates of inflation is the prevailing rate of inflation, leading to fall in costs of imports coming from rapidly developing economies into the US and European economies.

Therefore, low interest rates led to massive expansion of debt, complemented by the rapid increase real estate (or housing) prices. As a consequence, lenders started lending to sub-primes (Borrowers with a higher credit risk, based on their credit history).

Further, as a consequence of the same, banks such as ourselves, Lehman Brother, JP Morgan, Merrill Lynch, Citigroup etc. built up our balance sheets with sub-prime lending higher than tolerance limit. To take care of this issue, banks started converting their assets – loans gives out (on the balance sheet) into securities – in particular – Mortgage Backed Securities (MBS) by a process known as Securitization.

These MBS were given credit rating by Credit Rating Agencies[1] as almost equal to government bonds (which typically have very or no default risk at all). However, they weren't really "AAA" rating securities, as subprime borrowers actually defaulted on their loans. While at the same time, borrowers who were perhaps prime borrowers also walked away from their debts as it was too easy for them to decide to not to pay giving rise to the issue of Moral Hazard.

Therefore, the investors lost their money. Interestingly, the investors we are talking about here are primarily banks. This implies, for example, Lehman Brother held Residential Mortgage Backed Securities (RMBS) issued by Goldman Sachs, with an infinitely running spiral with multiple banks.

[1] Standard & Poor, Moody, Fitch are the biggest Credit Rating Agencies – called the Big Three.

Throughout 2007 & 2008, our Mortgage Department bought & sold approximately:

- $85bn notional amount of ABX indices[2], representing 5000 trades,
- $17bn principal amount of RMBS, representing 2000 trades,
- $32bn of notional amount of RMBS Credit Default Swaps (CDS), representing 5000 trades,
- $15bn of notional amount in Collateralized Debt Obligation CDS, in more than 800 trades.

Pertaining to the aforementioned information, there were allegation against Goldman Sachs that:

1. Goldman Sachs took a large directional "bet" against the U.S. housing market, and the firm was not consistently or significantly net "short the market" in residential mortgage-related (financial) products in 2007 and 2008, as the performance of our residential mortgage-related products business demonstrates,
2. Goldman Sachs had access to special information that caused us to know that the U.S. housing market would collapse.
3. Goldman Sachs engaged in some type of massive "bet" against its clients.
4. Goldman Sachs maintained poor standards with regard to client selection, suitability and disclosure as a market maker[3] and underwriter[4].
5. Goldman Sachs sold Collateralized Debt Obligations (CDOs) principally to large financial institutions, insurance companies and hedge funds with a focus on this type of product. However, investors were asked to buy these CDOs with regard to financial panic, principally referring to "Abacus" designed to Paulson & Co.
6. Goldman Sachs created mortgage-related products that were designed to fail.
7. Goldman Sachs led AIG to bankruptcy.

For the purpose of this meeting of the Board of Directors & the Executives will be meeting each other only for certain essential purposes, at other times they shall have different venues for the meeting. Given the hierarchy of Goldman Sachs, anddesignated job roles, the Board of Directors may question the Executives for any actions – unless restricted by the bylaws. While, Executives shall be responsible for the working of Goldman Sachs. To summarize the last paragraph, one should simply understand that ownership of the firm is not equal to running the firm, at a general level.

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[2] A financial benchmark that measures the overall value of mortgages made to borrowers with subprime or weak credit. The ABX index uses credit default swap contracts to come up with an overall value and is made up of 20 bonds that is comprised of groups of subprime mortgages. Using this index, financial institutions are able to determine if the market for these securities are improving or worsening. Also referred to as Asset-Backed Securities Index.

[3] A dealer in Securities.

[4] Administers the public issuance and distribution of securities from a corporation or other issuing body.

Evolution and History

Goldman, Sachs & Co.

In 1848 Marcus Goldman left a teaching job in Bavaria to start again in America. He worked as a shopkeeper for years before settling in New York and starting a new business of trading in commercial paper in 1869. Basically, Goldman helped other small businesses secure short-term capital. He would connect investors (often banks) and entrepreneurs, shaving off a slight profit for himself in the deal. As his reputation as a broker in short-term credit grew, more and more businesses came to him with their funding needs. Business was thriving when Goldman's son-in-law, Samuel Sachs, joined the firm in 1882.

Finding a Niche

Although still one of the smaller firms, the renamed Goldman, Sachs & Co. expanded into other areas of business outside of commercial paper. The company handled overseas transactions of both debt and currency, getting an early start in currency arbitrage, and made inroads against more established investment banks by handling the accounts for Sears Roebuck and other non-railroad companies. Goldman, Sachs & Co. helped several of those companies, including Sears Roebuck, through their IPO. The company demanded stricter reporting to make these non-industrial stocks attractive. Goldman was one of the first investment banks to advise clients to use capital to buy back shares whenever the price was undervalued.

The Crash

The founders passed Goldman, Sachs & Co. onto the next generation at the turn of the century. The roaring '20s were great for the company and its new subsidiary Goldman Sachs Trading Corporation. Unfortunately, the new subsidiary was nearly wiped out in the crash, but the core businesses of investment banking services and the original commercial paper brokerage helped the company recover. During the Great Depression Sidney J. Weinberg became the first non-family member to hold a position of power in the firm.

Government Sachs

Weinberg and other outsiders drove Goldman's expansion after the Crash. Under Weinberg, Goldman expanded into arbitrage for securities and currencies. Goldman also began its close relationship with the government, helping to secure financing for WWII and the Korean War. Goldman was no longer a small bank looking for a niche. By the 1950s Goldman enjoyed close relations with the government and had choice IPO clients like Ford.

Leveraging Up

Already hugely profitable and well-diversified, Goldman added commodities trading to its portfolio by buying out J. Aron & Company. The company also bought up overseas banks and created new partnerships to expand its international operations. Goldman began spinning off certain operations to minimize some of the risks of its speculation while still garnering the profits. At the beginning of the ’90s, Goldman recorded record-breaking profits year after year thanks to operations that covered everything from offering Japanese equities to the U.S. to bankruptcy turnarounds. If there was profit to match the risk, Goldman was there.

Public Life

Goldman was surprisingly inactive during the LBO craze of the 1980s, but it made up for it in the 1990s. Goldman purchased several asset management firms to shore up its neglected financial services side. This return to the investment banking side of the business helped give the company some balance–the trading profits at Goldman were often enormous, but even relatively minor market blips hurt the company far more than its peers.Goldman changed its corporate structure in 1996 to clear the way for going public in 1999, immediately becoming one of the largest financial services firms around. It used the capital to do another $7 billion in M&A, including the purchase of a market maker. The end result was that Goldman was one of the largest market makers, IPO underwriters and M&A advisors, along with the still profitable trading arm.

The Big Get Bigger

Other firms like Citigroup also began to mega-size in the new millennium, but Goldman definitely had an edge in prestige on most firms without Morgan in their name. During this unprecedented growth spurt, the connection between Goldman and the government remained strong as former Goldman employees even went on to top government positions.

The Fall

And here we are. In the 2007-09 market meltdown, Goldman’s diversified businesses bit the hand that fed–at least, politically. Although Goldman’s trading arm kept the firm from heavier losses by shorting the market, the firms other business were marketing investments at the same time. Both were doing their job, but in the eyes of congress and the public, this seems like a clear conflict of interest.

Timeline:

1869: Goldman is founded my Marcus Goldman as a small commercial paper deal operating in a one room office in Pine Street
1906: Goldman becomes a major player in nascent IPO business, including handling the initial equity shares for countries such as Sears, Roebuck and Co.
1929: Goldman suffers big losses in the stock market collapse, driven by its investment unit, Goldman Sachs Trading Corp. the unit was essentially a series of highly leveraged trusts that had been created by executive WaddillCatchings. The losses tarnished Goldman's reputation for years.
1930: Chastened by firm's trading losses, Sydney Weinberg takes over Goldman and establishes its investment bank.
1956: Goldman is the lead underwriter of Ford Motor Company's IPO, a symbol of Goldman's growing prowess
1994: Goldman faces a severe crisis after Goldman's bet on the bond markets suffer great losses. Some partners flee the firm.
January 1999 -- Jon Corzine abruptly steps aside as the firm's co-head, leaving Henry M. Paulson Jr. the sole chief executive.
Spring 1999 -- Goldman becomes a major underwriter of tech company IPOs, including such offerings as eToys.
May 1999 -- After much internal debate, Goldman decides to go public. At the time of its IPO, the firm is valued at about $33 billion.
May/June 2006: Bush administration taps Paulson to be Treasury secretary. Lloyd Blankfein succeeds Paulson as Chairman and CEO
December 2007 -- Goldman reports a record profit of $11.6 billion on revenue of $45.99 billion, on the heels of the credit and housing booms.
September 2008: With the financial crisis intensifying, Goldman becomes a bank holding company, entitling it to greater government protection.
Fall 2008 -- The Federal Reserve Bank of New York agrees to pay Goldman and other firms 100 cents on the dollar for its trading position with American International Group.
September 2008 -- Warren Buffett invests $5 billion in Goldman.
October 2008 -- The government buys $10 billion worth of preferred shares from Goldman as part of TARP

GOLDMAN SACHS' INVOLVEMENT IN THE SUBPRIME MORTAGE CRISIS

A turning point for the firm's history was it going public in 1999 with a small portion of the company actually given to the public (48% still held by the partners, 22% by other employees and 18% by former partners and other closely tied investors). In effect, less than 12% of the company was actually held by the public.

Goldman Sachs, with Henry Paulson as its CEO before he was named Treasury Secretary in 2006, campaigned successfully to eliminate any effective limits on the amount of leverage the largest investment banks could use. The SEC gave the five largest investment banks a special exemption so they could use their own risk models to determine their capital requirements. Goldman Sachs, Bear Stearns, Merrill Lynch, Lehman Brothers and Morgan Stanley were freed to leverage to extremely risky levels, in some cases reaching a ratio of 40 to 1. This piece of deregulation enabled the investment banks to substantially expand their businesses through borrowing, but left them fatally undercapitalized when they suffered losses. This made the bankruptcy even more critical and rather, foreseeable, since this ultra-leveraging move made investments banks more volatile and vulnerable to any crisis and motivated by banks to make more complex derivatives which often communicated with and built upon one another, making a systematic crises much more probable.

The involvement of the company in the global crisis can be looked at from different paradigms, the most common ones being stated as follows:

1. **Underwriting Subprime Securities**

Between 2000 and 2007, backers of subprime mortgage-backed securities — primarily Wall Street and European investment banks — underwrote $2.1 trillion worth of business, according to data from trade publication Inside Mortgage Finance. The top underwriters in the peak years of 2005 and 2006 were Lehman Brothers at $106 billion; RBS Greenwich Capital Investments Corp., at $99 billion; and Countrywide Securities Corp., a subsidiary of the lender, at $74.5 billion. Also among the top underwriters: Morgan Stanley, Merrill Lynch, Bear Stearns, and Goldman Sachs.

2. **Dealing in RMBS and CDOs**

The partners were heavily invested in the subprime mortgage business. Goldman in May 2005 submitted a prospectus so that it could sell more than $425 million in securities known as "mortgage pass-through certificates." Those securities were sold from an underlying pool of 9,388 second-lien loans that Goldman Sachs bought from Long Beach Mortgage Co., a company that ranks No. 5 on the Center's list of the top 25 subprime lenders.

Alternative Mortgage Products, the bank's mortgage bond division, sold $12.9 billion worth of sub-prime mortgage bonds in 2006. This made Goldman Sachs the 15th largest subprime mortgage bond seller and represented an increase of 59% in its subprime business over the previous year. From 2001 to 2007, Goldman Sachs sold $135 billion of bonds backed by risky mortgages. The bank was also the largest creditor of New Century, which was the second biggest subprime lender in the US until it went bankrupt in 2007. When New Century filed for bankruptcy, it listed Goldman Sachs Mortgage Co. as one of the 50 largest unsecured creditors. Other New Century creditors include Bank of America, Morgan Stanley, Citigroup, Barclays, and Swiss bank UBS. Rather, Goldman aided untrusted lenders like Century, Fremont and Long Beach to securitize high risk, poor quality loans, and package it such that it attains credit ratings from agencies in the form of RMBS (Residential Mortgage Backed Securities) and sold these to investors, pushing risky financial securities into the market with clever deceit and skullduggery.

Goldman's own financial products were heavily criticized for poor selection of risk, quixotic risk diversification and near-junk-bond characteristics. Allan Sloan of The Washington Post (16 October 2007, An Unsavory Slice of Subprime) says

> "…Meet GSAMP Trust 2006-S3, a $494 million drop in the junk-mortgage bucket, part of the more than half-a-trillion dollars of mortgage-backed securities issued last year. We found this issue by asking mortgage mavens to pick the worst deal they knew of that had been floated by a top-tier firm, and this one's pretty bad.
>
> It was sold by Goldman Sachs. GSAMP originally stood for Goldman Sachs Alternative Mortgage Products but has become a name itself, like AT&T and 3M. This issue, which is backed by ultra-risky second-mortgage loans, contains all the elements that facilitated the housing bubble and bust. It's got speculators searching for quick gains in hot housing markets, it's got loans that seem to have been made with little or no serious analysis by lenders, and finally, it's got Wall Street, which churned out mortgage "product" because buyers wanted it. As they say on the Street, "When the ducks quack, feed them".."

Goldman Sachs used offshore tax havens, often in the form of secret deals run through the Cayman Islands, to sell its mortgage-backed securities to institutions worldwide, including European and Asian banks. In at least one such offering, as documented in a September 26, 2006 investment circular, Goldman Sachs pitched supposedly high-grade bonds backed by residential, commercial, and student loans, but the ratings of many of the mortgage securities hid their true risks and, in some cases, Goldman's descriptions exaggerated their quality.

3. Dealing against the market (late 2006)

By December 2006, Goldman-Sachs claims after the fact that it began reducing its exposure to subprime mortgages at this point. It also begins betting against the housing market, while continuing to sell CDOs to its clients. Others claim these risk decisions were made in the spring and summer 2007.

This exponentially increased the company's involvement in the subprime market, as when most investors were taking a long positions for their mortgage investments, the company claiming to innocently have a 'pessimistic' outlook went to short its position. The Goldman partners "sold their mortgage positions, sometimes at a loss, and then adopted a bearish stance, using large quantities of the company's own money to benefit from a crash." The ethical concern here is that if the company's experts itself were expecting and making profits on a market downturn, why were they then selling the same securities to the average investors by dressing the real situation and putting on an optimistic face.

4. ABACUS-CDO Deal (2007)

Goldman was approached by John Paulson of Paulson & Co. to assemble a synthetic CDO, dubbed ABACUS 2007-AC1, in exchange for a $15 million fee. Goldman brought in an outside asset manager (ACA Capital) to aid in the selection of collateral that was to comprise ABACUS. In the end, it consisted primarily of subprime mortgage securities. Goldman sold ABACUS to German-based bank IKB.

Paulson effectively shorted ABACUS by entering into credit default swaps to buy protection on specific layers of the CDO (the senior tranches). The CDO ultimately failed as a result of the subprime market meltdown. In the end, John Paulson netted approximately $1 billion, IKB lost approximately $150 million, ACA Capital lost approximately $900 million, and Goldman lost approximately $100 million (which was partially offset by the $15 million fee it received from Paulson & Co. Paulson and many senior Goldman partners to make profits from this failure used a complex compendium of synthetic CDOs[5] and Credit Default Swaps[6] strategically. Wall Street's article '*A Wall Street Invention Let the Crisis Mutate'* describes the impact these new instruments made to the crisis.

In short, commentators alleged that Goldman made materially misleading statements and omissions in connection with the ABACUS CDO placement. Goldman claims that marketing materials for ABACUS conveyed that ACA Management, an independent third party with experience analyzing RMBS credit risk, selected the reference portfolio of the RMBS underlying the CDO. In fact John Paulson (who, unbeknownst to IKB, had a direct adverse economic interest in the instrument) played a significant role in the portfolio selection. Additionally, it is alleged that Goldman's salesman for ABACUS, Fabrice Tourre, misled ACA into believing that Paulson had invested hundreds of millions of dollars in the equity of ABACUS. Tourre further said that Paulson's interests in the collateral selection process were aligned with ACA's when in reality their interests sharply conflicted.Goldman Sachs allowed investors to bet on loans that had already been made. In this way, Goldman Sachs contributed to a whole new wave of speculative activity that ended with the near-collapse of the global financial system and government bailouts of banks.

Ethical concerns underlying this deal and similar others:

- In essence, Paulson & Co. was the seller and IKB was the buyer of the ABACUS CDO. Goldman served both which posed a severe conflict of interest. It appears in the ABACUS case Goldman favored Paulson & Co. over IKB, because Goldman followed the instructions of Paulson & Co. closely but seemed to be less concerned about fulfilling its fiduciary duty to IKB. Goldman did not fully disclose material information to IKB about Paulson's involvement in picking the securities in the ABACUS CDO.

- Goldman was the agent for both Paulson & Co. and IKB. Goldman was also acting as a principal on its own behalf when it bought the ABACUS CDO and put the deal into its own books, further complication matters by conflicting interests of more than three parties in a single transaction.

- Goldman withheld material information from its buyer, IKB, in its marketing brochure and didn't communicate the material risks involved to the client. The material fact withheld was that Paulson, who was on the short side of the deal and would benefit from a decline in price of the ABACUS CDO, was involved in selecting the underlying securities of the CDO.

5. Senior management fire sales (2008, peak of crisis)

[5] Synthetic CDOs. Collateralized debt obligations are a type of security whose value and payments are derived from a portfolio of underlying fixed income assets. CDO securities are split into different risk classes, or tranches, whereby "senior" tranches are considered the safest. Interest and principal payments are made in order of seniority. Thus, junior tranches offer higher coupon payments (and interest rates) or lower prices to compensate for additional default risk. A synthetic CDO is similar to a traditional cash CDO. The primary difference between the two is that a synthetic CDO does not own the underlying assets. Alternatively, synthetic CDOs gain credit exposure to a portfolio of fixed-income assets through the use of credit default swaps. The risk of loss on synthetic CDOs is divided into tranches just like traditional (cash) CDOs.

[6] Credit Default Swap (CDS). Credit default swaps are a form of insurance policies and function similarly. CDSs are agreements between buyers who desire some form of debt default protection and sellers that provide a buyer with a nominal payoff in the event of credit default. Buyers of CDSs pay a series of fee premiums – similar to an insurance policy – for the protection. CDSs can be used as a way to hedge default risk for those who own bonds, or they can be used as a way to speculate (commonly referred to as naked credit default swaps) on debt issues and the creditworthiness of other entities without having to hold their bonds.

Goldman was net-shorting the mortgage debts and values since late 2006 and all throughout 2007 but the matter that marks the most significant concerns is the fact that like many other Wall Street firms, Goldman was marking down the billions of hard-to-value and thinly traded mortgage- and mortgage-related securities on its balance sheet. Goldman would prove to be correct about the value of these securities—they were worth far less than most of Wall Street was saying they were. But its decision to mark them down aggressively, set off a chain of events among its competitors that would exacerbate their demise a year later and lead to Goldman cashing in—legally, if not morally—at their expense.

As a concocted plan between the top management- including Blankfein and Viniar- Goldman prepared a plan in second half on 2006 (the chief executer being Broderick) where they made a huge bet (or hedge) that the mortgage market would collapse. They knew about the collapse, predicted it and rather aggravated it as well, but never shared the information in the interest of the clients. As a result, Goldman had its most profitable year to date in 2007, earning $17.6 billion pretax, including $4 billion from the hedge. In 2009, with most of its competition anesthetized, Goldman did even better, earning almost $20 billion pretax. It is estimated that 75 percent of Goldman Sachs' revenues come not from serving clients but from trading for its own account in currencies, stocks, commodities, and fixed-income securities. Stockman said that it was "absolutely true" that Goldman Sachs could accurately be described as "a hedge fund masquerading as a bank."

Among those executives who sold chunks of Goldman stock after the Bear Stearns debacle was Jack Levy, the co-chairman of Goldman's mergers and acquisitions department. On March 19, 2008, Levy sold 30,000 Goldman shares, at $171.32 each, generating $5.14 million. Levy also "wrote" — or sold — 60,000 October 2008 calls on Goldman stock in the market to an investor, or investors, who bet Goldman's stock would reach $230 per share by then. Levy pocketed the premium on the calls, following which Goldman's stock was trading around $90 a share by October 2008.

Also among the big sellers in March 2008 was E. Gerald Corrigan, a Goldman managing director and former head of the New York Fed, who sold 15,000 shares of Goldman for $2.6 million; Jon Winkelried, Goldman's co-president at the time, who sold 20,000 shares for nearly $3.5 million (he quit the firm a year later after asking it to buy an additional $19.7 million of his illiquid investments); and Masanori Mochida, the head of Goldman in Japan, who sold 100,000 shares for $17.6 million.

Marc Spilker, who just resigned as head of Goldman's asset management division, sold 11,484 shares for $2 million. David Solomon, a former Bear banker who joined Goldman in 1999 and now is co-head of investment banking, sold 8,072 of his Goldman shares at $175.89, generating just more than $1.4 million in proceeds.

But the real action at Goldman came after Lehman blew up and the American taxpayers — through their proxies, Treasury Secretary Hank Paulson, Fed Chairman Ben Bernanke and Tim Geithner, the head of the New York Fed — decided to rescue American International Group, the global insurer. On Sept. 17, Levy sold 50,974 Goldman shares, this time for $119.99 each, generating $6.1 million; two days later he sold another 30,000 shares, for around another $4 million. (He also wrote more calls betting that Goldman's stock wouldn't hit $210 per share by January 2009.) Also on Sept. 17, Mochida sold 500,000 shares, at $111.44, generating $55.7 million.

At this time, too, some of the savviest of Goldman's savvy executives sold stock, including Milton Berlinski, a longtime keeper of the Goldman flame, who sold 100,000 shares on Sept. 17, generating $10.3 million, and 75,000 shares the next day. Another big seller was Richard Friedman, who runs Goldman's merchant banking, or principal investment, business. He sold 120,500 shares for around $12.3 million on Sept. 17, another 25,000 shares the next day for around $2.5 million, and 100,000 shares the day after for

$13.8 million. In sum, Friedman — whose job made him Goldman's ultimate long-term investor — sold around $29 million of his Goldman shares in the panic following the collapse of Lehman.

The reason for these fire sales was simple, their analytics and deliberate action had predicted that this crash will happen and they bet against it by fraudulently letting others believe the prices are going to go up, to make millions in profit. Goldman Sachs is known for possibly helping to bankrupt Lehman Brothers, by short selling Lehman shares. Goldman Sachs relates to its purchase of Lehman's trading positions when the firm went bankrupt in September 2008. CME Group, the world's largest futures exchange, selected Goldman Sachs as one of a select group of companies allowed to bid on $2 billion worth of contracts held by Lehman Brothers Inc. (LBI) after it declared bankruptcy. According to a report by CNBC, this was "the first and only time the CME Group has conducted a forced liquidation of a member firm's positions, and left Lehman creditors with little to show for the valuable contracts." The sale of Lehman contracts by CME Group resulted in a $1.2 billion loss, and there may be a basis for those with stakes in Lehman to sue.

6. Post-crisis action

In September 2008, Goldman Sachs ceased to be an investment bank and became a bank holding company.

On October 28, 2008, the US Treasury paid Goldman Sachs $10 billion in exchange for Goldman Sachs shares as one of the six large banks initially given funding from TARP intended to unfreeze credit markets. This bailout was done through the capital purchase division of the Troubled Assets Relief Program (TARP). The congressional oversight committee for TARP calculated that the Treasury paid $3.5 billion more for stocks than they were worth. Around the same time Warren Buffett's firm Berkshire Hathaway bought $5 billion in Goldman Sachs shares but paid less for them than the US government did.

Some financial analysts have argued that in calculating Goldman Sachs' government bailout, the total should include the $12.9 billion in government funds that flowed from the New York Federal Reserve through AIG, in AIG's bailout package, to Goldman Sachs. Goldman Sachs was paid full-value for collateral calls on debt swaps it had made with AIG, and received more of AIG's bailout money than any other firm. It also received AIG bailout money through deals it had with SocieteGenerale, a French bank that received $11 billion of the AIG bailout.

PROCEDURAL GUIDE

To understand the corporate governance structure of Goldman Sachs, one needs to understand the difference between Board of Directors and Executives.

An executive director is a chief executive officer (CEO) or managing director of an organization, company, or corporation. The role of the executive director is to design, develop and implement strategic plans for the organization in a cost-effective and time-efficient manner. The executive director is also responsible for the day-to-day operation of the organization, which includes managing committees and staff as well as developing business plans in collaboration with the board. In essence, the board grants the executive director the authority to run the organization. The executive director is accountable to the chairman of the board of directors and reports to the board on a regular basis – quarterly, semiannually, or annually. The board may offer suggestions and ideas about how to improve the organization, but the executive director decides whether or not, and how, to implement these ideas.

On the other hand, a board of directors has the legal responsibility of ensuring that a business or nonprofit meets its chartered mission requirements. Boards are guided by bylaws, which are rules dictating the broad goals of the organization and basic operating procedures. Board members serve in several specific positions, depending on whether they are for-profit or nonprofit, with secretary, vice chair and chair positions common to both. If the CEO sits on the board of directors, he is subordinate to the chairman of the board. Their role is to maintain ethical oversight and to ensure that the management is ensuring the benefit of the stakeholders involves, especially shareholders. Sometimes, as mandated by law, Independent Directors are added to the BoD who doesn't share any pecuniary relationship with the company so that they can help in maintaining objectivity on the board.

I. INTRODUCTORY REMARKS

1) OFFICIAL LANGUAGES
   - The members of the cabinet shall give their statements in English.
   - Regional dialects or foreign languages are discouraged
   - Official documents shall only be prepared in English.
   - The Executives are allowed to use Personal Pronouns while they are giving statements.

2) DISCIPLINE

   Every executive shall act in his/her respective capacities and conduct at all times. Being disrespectful to the staff, moderators or the other executives shall lead to negative consequences.

3) POWERS OF MODERATION PANEL

- The moderators can address the cabinet in written or verbally at any point of time.
- The Chief Moderator shall declare the opening and closing of each meeting and may propose the adoption of any procedure to which there is no significant objection.
- All procedural matters in committee are subject to the discretion of the Moderation Panel.
- The Panel may undertake any action that is not covered in the Rules of Procedure in order to facilitate the flow of debate and policy making.
- The Panel may intervene in the substantive discussion at any point of time for the benefit of the meeting, if the need be.

4) AGENDA
- The information about the agenda shall be communicated to the concerned executives in advance.
- The Chief Moderator who may add additional topics to the agenda at his discretion may place additional items of an important and urgent nature on the agenda during the meeting.

II. GLOSSARY OF THE PROCEDURE

1) PROPOSAL
- A proposal is a recommendation made by an executive to the meeting about what actions to pursue or how to utilize the time of the meeting.
- A proposal shall be made as and when the floor is open to the same by the discretion of the Panel.
- The executive making a proposal to the committee shall clarify the time limit for the motion and also the objective or the topic the minister seeks to achieve by the same.
- The proposal which is more disruptive to the meeting's proceedings solely in terms of total time shall be voted upon first.
- A proposal can also be made for the following-
  a) Suspension of Meeting
  b) Adjournment of Meeting
  c) Caucusing or alternative discussion means (mentioned below)
  d) Closure of Debate
  e) Introduction of final documents
  f) Any other proposal that might follow in the ambit.

2) POINTS

A point is a privilege given to each member which can take the following forms:

a) <u>Point of Order-</u> During any stage of discussion and deliberations of the cabinet, any minister has the privilege to disrupt the proceedings and point out any procedural error on the part of the Moderation Panel or any factual error on the part of any other executive present in the council.

b) <u>Point of Inquiry-</u> As and when the floor is open to points, the executives have the privilege to inquire about the proceedings or the agenda to the Panel.

c) Point of Information- The executives have the privilege to question and request for more information from any other executive only at those junctures of debate when the Panel allow for the same.

d) Points of Personal Privilege- The executives have the privilege to seek maximum comfort in the meeting. The executives can seek to get their personal discomforts redressed from the Panel up to the extent they allow.

3) DISCUSSION SESSIONS

- Whenever any discussion needs to take place in the meeting, it shall be done by the means of the discussion sessions for which an appropriate proposal must be raised that shall be voted upon and accepted by a simple majority or at the discretion of the Panel.
- The Discussion Sessions may be of the following kind-

a) Moderated Discussion Sessions- The executive making the proposal for this session is supposed to specify the topic for the same as well as the total time for this session along with the time that will be allotted to every individual executive. This session will be moderated or run by the Panel.

b) Unmoderated Discussion Sessions- The executive raising this proposal shall only specify the total time for the session. He/She shall also make a brief statement regarding the objectives that this session shall seek to achieve. This session will not be interfered into by the Panel at all, however, the executive raising the proposal shall also give a short statement at the end of session stating if the objectives have been achieved or not.

c) Round Robin Session- It is a formal means of discussing a specified topic which shall be indicated by the executive raising the proposal, where in there is automatic moderation without any interference by the Panel. The floor moves round around the table in a clock-wise direction with each speaker having 45 second to make their statement (subject to the discretion of Panel). The Executive raising the proposal shall also specify if questions will be entertained in this session or not. If questions are entertained then each speaker shall be asked one question. The executive who has given his statement has the privilege to choose the executive he shall be asked a question from. The Panel shall at any point of time, may ask any questions to any executive owing to their own discretion.

d) Group Discussion- It is an unmoderated formal discussion medium for the executives. The Panel shall not moderate the debate (except under exceptional circumstances) and there will be no pre-defined flow of debate. Any executive can speak at any time, which can be followed up by other executives. The Panel can at any time ban the use of this medium of debate if it is felt that the GD is getting too informal or ineffective for discussions.

e) Cross Examinations- In this session, the directors and some executives may examine or question, a certain number or all of the executives regarding their past or future actions. No time needs to be specified for this proposal; rather the total number of permitted questions needs to be specified by the member raising the motion. The Moderation Panel has the authority to reject this motion if they feel it is not raised at an appropriate time in the committee.

4) PROPOSAL FOR EXCLUDED SESSIONS

- Since the purpose of the committee is to bring face-to-face the Directors with the management committee to point out and deliberate upon the ethical lapses of the latter, the procedure shall also allow for excluded sessions, where in the BoD and the Executives can go to different rooms to continue the session (following the same procedural rules stated above), only to be united at a later stage.
- The proposal can be raised by any of the members of the committee and should be passed by the majority (separately concluded) for all directors and executives. A proposal will have to gather majority in at least one of these groups to get passed.
- In certain circumstances, the Moderators may also propose the motion and can pass it by their discretion if all 3 members of the moderation panel are in unison regarding it.

5) REBUTTALS

In specified discussion mediums (Moderated Caucuses or Round-Robin Sessions), any executive is allowed to raise a plea to rebut the statement made by any other executive directly after his/her statement is completed. The time specified for the rebuttal is upto the discretion of the Panel at all times, along with the decision to accept the plea or not.

6) CLARIFICATION RIGHTS

If any other executive or the Panel has somehow offended the sentiments of any executive, then that executive has the right to clarify the same matter and ask for an apology if the offense is grave in nature. This clarification has to be sent to the Panel in writing, after which they may allow floor time to the executive to clarify his stance if incase the offense is grave enough.

7) VOTING

- Any proposals except the ones already mentioned have to be voted upon by all the executives present. Such voting shall be done by a placard vote and a simple majority will pass any proposal if in case the proposal is purely procedural and non-substantive in nature.
- A special 2/3rd majority is required for substantive proposals.
- Voting on the final documents shall be done by a roll call vote and the final document must be adopted if in case the simple majority has been obtained. Abstentions are in order.

III. DOCUMENTATION

- At any point of time in the committee, one or more of the following documents or official communications can be prepared and passed by one, more or all the executives for any issue so discussed. The documents are as follows-
    a) COMMUNIQUES- A communique can be of three types in the committee, ie. Individual to Individual (I2I), Individual to Authority (I2A) and Official communique to any specified person.

- I2I- Communication between any two executives can be done by this, not involving the Panel at all. A chit can be passed to this effect.
- I2A- Communication between an executive and the Panel. A written paper can be passed to this effect.
- Official Communication to any specified department of the company or any particular stakeholder to communicate the decision taken in the council or to merely order a particular act to be done. This has to be passed in the council unanimously.

b) PRESS BRIEF- A press brief has to be prepared and unanimously passed in the meeting to communicate with the press and effectively the entire world about the decisions taken in the council.

c) DIRECTIVES- Passed by a special majority, a directive is a tool by which a new policy (internal or external affairs) can be adopted by the executives and sent for approval to the appropriate parties.

d) AGENDUM SHEET ADDITION DIRECTIVE- Any issue that the executives want to discuss with the shareholders in an AGM, can be listed down on the agendum sheet using this special directive.