BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

FINAL NOTICE

To: Goldman Sachs International (Firm Reference Number: 142888)

Date: 21 October 2020

1. ACTION

1.1. For the reasons set out in this Notice, the PRA imposes a financial penalty on Goldman Sachs International ("GSI" or "the Firm") of **£48,308,400** (equivalent to US$63 million) for breaching:

(1) Fundamental Rule 2 and prior to 19 June 2014, Principle 2 of the Principles for Businesses;

(2) Principle 3 of the Principles for Businesses; and

(3) SYSC 9.1.1 R of the FSA Senior Management Arrangement, Systems and Controls sourcebook.

1.2. These breaches relate to events that occurred during the periods 1 February 2012 to 30 May 2013 (the "first Relevant Period") and 1 October 2015 to 3 February 2016 (the "second Relevant Period") (together, the "Relevant Periods").

1.3. GSI agreed to settle during the Discount Stage of the PRA's investigation. As a result, GSI qualified for a 30% settlement discount under the PRA Settlement Policy. Were it not for this discount, the PRA would have imposed a financial penalty of **£69,012,000** (equivalent to US$90 million) on GSI.

2. SUMMARY OF REASONS FOR ACTION

Background

2.1. GSI is an investment banking, securities and investment management firm headquartered in London. GSI is a Category 1 PRA-authorised firm (meaning that it has the capacity to cause significant disruption to the UK financial system if it were to fail).

2.2. The PRA has taken action in light of GSI's failings arising from its involvement as arranger, initial purchaser and underwriter in three bond transactions ("the 1MDB bond transactions") in 2012 and 2013 for 1Malaysia Development Berhad ("1MDB"), a strategic investment and development company wholly-owned by the Malaysian government. In total, GSI issued approximately US$6.5 billion for 1MDB in 2012 and 2013 over an 11 month period and it initially booked approximately US$547 million in profits.

2.3. The 1MDB bond transactions were originated out of Asia and were reviewed and approved under Goldman Sachs' standard global governance and oversight framework. GSI relied on this governance and oversight framework in order to assess and manage the risks arising from the 1MDB bond transactions. The governance and oversight framework was comprised of business and control functions such as Legal, Conflicts and Compliance, as well as a transaction committee review process tasked with the review and approval of the transactions.

2.4. The 1MDB bond transactions were large, complex, executed in compressed timescales, and involved clients and counterparties in jurisdictions that GSI had identified as representing higher legal, compliance and reputational risk. The transactions also generated significant fees and revenue. GSI's governance and oversight framework therefore needed to operate to a standard that was commensurate with this heightened risk profile.

2.5. However, GSI failed to assess and manage risk to the heightened standard that was required of it. In particular, GSI failed to: (i) adequately investigate the involvement of a third party of concern ("Third Party A") in the first 1MDB bond transaction; (ii) provide information to the transaction committees that would have enabled them to assess sufficiently holistically the risk factors that arose in the 1MDB bond transactions; (iii) properly record transaction committee meeting deliberations of the 1MDB bond transactions; and (iv) manage and record allegations of bribery and misconduct in connection with 1MDB and the third 1MDB bond transaction received in mid-2013 and late 2015, after the transactions had closed. These failings involved GSI senior personnel and committees and occurred over a sustained period of time on a number of related transactions.

2.6. Since 2015, Goldman Sachs entities (including GSI), Third Party A, other current and former employees of Goldman Sachs entities (including GSI), and individuals at 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary have been the subject of criminal and/or regulatory investigations and actions in numerous jurisdictions in relation to misconduct in connection with the 1MDB bond transactions.

2.7. The failure to adequately manage financial crime risk can have a significant adverse impact on a firm's safety and soundness. These impacts can be: (i) direct, resulting from the imposition of significant financial penalties by regulators globally, and/or losses incurred from significant risk positions that become associated with alleged or actual financial crime – both

can affect prudential safety and soundness; and/or (ii) indirect, such as negative reputational or legal impact. Such failures may indicate wider cultural issues at a firm such as a lack of respect for compliance and regulatory rules and requirements, particularly where failures involve individuals holding senior positions. Firms and their senior management should therefore promote a culture which emphasises the importance of identifying and managing financial crime and other legal, compliance and reputational risks.

Breaches and Failings

2.8. The PRA considers that during the first Relevant Period GSI breached Principle 2 and Principle 3 of the FSA's (and from 1 April 2013, the PRA's) Principles for Businesses and SYSC 9.1.1 R. The PRA also considers that during the second Relevant Period GSI breached Fundamental Rule 2 of the PRA's Rulebook. This is because GSI failed appropriately and effectively to:

(1) document and manage the risk of Third Party A's involvement in the 1MDB bond transactions;

(2) assess on a sufficiently holistic basis the risks associated with the 1MDB bond transactions;

(3) record how its transaction review committees assessed and managed the risks associated with the 1MDB bond transactions; and

(4) record and respond to allegations of bribery and misconduct in connection with 1MDB and the third 1MDB bond transaction.

Involvement of Third Party A

2.9. GSI failed to manage appropriately and effectively the risks of the involvement of Third Party A, an individual in the 1MDB bond transactions about whom GSI had previously identified serious concerns, including concerns about their unverified source of wealth. This is because GSI's governance and oversight framework:

(1) failed to adequately assess and mitigate the involvement of Third Party A in the first 1MDB bond transaction. Instead, GSI placed an overreliance on the statements of the team of principally Asia-based Goldman Sachs bankers who originated and undertook the day-to-day work on the transactions (the "Deal Team") and the parties to the transaction regarding Third Party A's non-involvement; and

(2) failed to coordinate its transaction committee review process to ensure that sufficient analysis was provided and adequate information was presented to the transaction

committees about the risks of Third Party A's involvement in the first 1MDB bond transaction.

Assessment of risks

2.10. The transaction committees that reviewed and approved the 1MDB bond transactions failed to assess on a sufficiently holistic basis the risk factors that arose in each of the 1MDB bond transactions, which was important given the higher risk profile of the 1MDB bond transactions. Despite the depth of experience of the transaction committee members, the transaction committees which oversaw the consideration and mitigation of each risk factor on each of the 1MDB bond transactions did not take a sufficiently holistic approach to risk management. The manner in which some of the risks were presented to the transaction committees also did not enable the committees to assess the risks fully on a holistic basis.

Recording of the management of risks

2.11. GSI failed to record its assessment and management of the risks associated with the 1MDB bond transactions appropriately and effectively by failing to exercise reasonable care to ensure that it maintained sufficiently detailed records of the discussions, scrutiny and decision-making rationale that took place at its transaction committee meetings, which was important given the higher risk profile of the 1MDB bond transactions.

Allegations of bribery and misconduct

2.12. GSI failed to manage appropriately and effectively allegations of bribery and misconduct relating to 1MDB and the third 1MDB bond transaction, received after the transactions had closed. In particular:

(1) GSI failed to escalate pursuant to GSI internal policies an allegation received in mid-2013 about possible bribery between two third parties in connection with the joint venture which 1MDB was funding using the proceeds of the third 1MDB bond transaction; and

(2) GSI failed to take or record appropriate action after receiving an allegation in late 2015 concerning a Goldman Sachs senior banker's misconduct in 1MDB.

Breaches

2.13. As a result of the matters outlined at paragraphs 2.9 to 2.12 above, the PRA considers that GSI breached:

(1) Principle 2 because it failed to:

(a) exercise due skill, care and diligence when managing and documenting the risks surrounding the involvement in the 1MDB bond transactions of a third party about whom GSI had identified serious concerns;

(b) assess with due skill, care and diligence the risk factors that arose in each of the 1MDB bond transactions on a sufficiently holistic basis;

(2) Principle 3 by failing to organise and control its affairs responsibly and effectively in relation to the recording in sufficient detail of the assessment and management of risk associated with the 1MDB bond transactions. GSI also breached SYSC 9.1.1 R; and

(3) Fundamental Rule 2 and prior to 19 June 2014, Principle 2 because GSI failed to exercise due skill, care and diligence when managing allegations of bribery and misconduct in connection with 1MDB and the third 1MDB bond transaction.

3. REASONS WHY THE PRA HAS TAKEN ACTION

3.1. The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's general objective is to promote the safety and soundness of those firms.

3.2. The PRA is required to advance its general objective primarily by seeking to ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system. This ultimately relies on firms conducting their businesses in a safe and sound manner. This often requires firms to act more prudently than they would otherwise choose, in the presence of incentives to take more risk (which can, in turn, impose more risk on the stability of the financial system).

3.3. The PRA considers that how a firm manages risk (including financial crime risk) is an integral part of the PRA's assessment of a firm's safety and soundness. The PRA expects firms to exercise due skill, care and diligence in upholding and maintaining the robustness of a firm's risk management systems and controls.

3.4. The PRA is particularly concerned that where a transaction (or transactions) represent a high risk profile for a firm (as indicated, for example, by having the potential to generate significant fees and/or revenues, alongside the involvement of clients or parties in higher risk financial crime jurisdictions), firms must apply heightened oversight and scrutiny to adequately identify, assess and manage risk. This includes firms recognising and mitigating the risk of such oversight and scrutiny being compromised in high value transactions as a result of the value of the transactions to individual employees and the firm itself. This also includes firms

identifying and assessing risks that arise in connection with its business not just individually, but also holistically.

3.5. When a firm identifies risks concerning a third party's involvement in a transaction, the PRA expects a firm to apply heightened scrutiny and due diligence to ensure these risks are appropriately managed. Firms must ensure that the nature of the risks posed by such third parties are fully identified, widely communicated and understood by the firm's governance and oversight functions and any other relevant areas of the business.

3.6. The PRA also expects firms to robustly uphold their internal risk management policies, including compliance policies such as escalation policies. To ensure risk is properly managed, firms must take reasonable steps to ensure that employees of all seniorities comply with such policies diligently and that actions taken in accordance with these policies are properly documented. This is particularly the case for senior individuals, who help set the tone at the top and develop the culture at the firm.

3.7. Adequate record keeping is key to the management of risk. The maintenance of accurate and sufficiently detailed records of a firm's business and internal organisation, and particularly of its control functions and senior decision-making committees, is necessary for a firm's own ability to identify and manage risks associated with its business prudently. Inadequate record keeping hinders both the firm's and the PRA's ability to identify and manage risks associated with the firm's business prudently and may lead to serious issues being obfuscated or overlooked.

3.8. As a result of the breaches identified above, and in circumstances where GSI had booked three higher risk transactions totalling US$6.5 billion onto its balance sheet within 11 months, the PRA considers that GSI failed to implement a sufficiently diligent and prudent approach to risk management both during and after the 1MDB bond transactions. These failings therefore had the potential to impact adversely on GSI's safety and soundness.

4. SANCTION

4.1. Taking into account the facts and matters in **Annex A** and the relevant factors set out in the PRA Penalty Policy, the PRA has concluded that GSI's breaches of Principle 2, Principle 3, SYSC 9.1.1 R and Fundamental Rule 2 justified the imposition of a financial penalty of **£69,012,000** (equivalent to US$90 million). That penalty was reduced by 30% to **£48,308,400** (equivalent to US$63 million) because GSI settled the matter with the PRA during the Discount Stage.

4.2. The PRA does not make any criticism, findings of misconduct or other adverse findings of fact in relation to any of the third parties referred to in this Notice.

5. ANNEXES, APPENDICES AND PROCEDURAL MATTERS

5.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding GSI can be found in **Annex A**. GSI's breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA imposed is set out in **Annex C**. The procedural matters set out in **Annex D** are important. The definitions used in this Notice are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

Miles Bake
Head of Legal, Enforcement and Litigation Division
for and on behalf of the PRA

ANNEX A: FACTS AND MATTERS RELIED UPON

1. BACKGROUND

Relevant parties and individuals

Goldman Sachs

1.1. Goldman Sachs is a global investment banking, securities, and investment management group headquartered in New York.

GSI

1.2. GSI is an investment banking, securities and investment management firm headquartered in London. GSI is an indirect subsidiary of The Goldman Sachs Group, Inc. GSI acts as a material booking entity for bond transactions underwritten and purchased by Goldman Sachs outside the USA.

1.3. Prior to 1 April 2013, GSI was regulated by the FSA. Since 1 April 2013, it is regulated and authorised by both the PRA and the FCA. GSI is a Category 1 PRA-authorised firm (meaning that it has the capacity to cause significant disruption to the UK financial system if it were to fail).

1MDB

1.4. 1MDB was a strategic investment and development company wholly-owned by the Malaysian government through its Ministry of Finance. 1MDB performed a government function on behalf of Malaysia, with the mandate to pursue investment and development projects for the economic benefit of Malaysia and its people.

Sovereign Wealth Fund A

1.5. Sovereign Wealth Fund A was an investment fund wholly owned and controlled by a foreign government and performed a government function. Goldman Sachs had entered into a number of transactions with or for Sovereign Wealth Fund A prior to the 1MDB bond transactions.

Sovereign Wealth Fund A Subsidiary

1.6. Sovereign Wealth Fund A Subsidiary was an investment company. Goldman Sachs had entered into a number of transactions with or for Sovereign Wealth Fund A Subsidiary prior to the 1MDB bond transactions.

Third Party A

1.7. Third Party A was an individual who had involvement in certain proposed or actual transactions involving Goldman Sachs between 2009 and 2013. Third Party A had connections to high-ranking officials of 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary.

2. THE 1MDB BOND TRANSACTIONS

Overview

2.1. In 2012 and 2013, GSI was the arranger, initial purchaser and underwriter of three bond transactions ("the 1MDB bond transactions"). The 1MDB bond transactions resulted in a total issuance of US$6.5 billion for 1MDB over a period of 11 months, as follows:

(1) the first transaction was a US$1.75 billion bond issuance, known internally within Goldman Sachs as Project Magnolia. Work on the transaction commenced in February 2012, and it closed in May 2012. Approximately half of the proceeds of the bond issuance were to be used to partially fund the acquisition of a power plant and the remainder was to be used for general corporate purposes, including potential future acquisitions. In order to achieve an attractive credit rating, the bonds were jointly guaranteed by 1MDB and Sovereign Wealth Fund A, in return for which Sovereign Wealth Fund A Subsidiary was granted an option to acquire up to 49% of the subsidiary of 1MDB acquiring the power plant;

(2) the second transaction was a US$1.75 billion bond issuance, known internally within Goldman Sachs as Project Maximus. Work on the transaction commenced in July 2012, and it closed in October 2012. Approximately half the proceeds of the bond issuance were to be used to purchase certain power assets, with the remainder to be used to fund transaction costs and interest payments and for general corporate purposes, including potential acquisitions. The bonds were deposited into a special purpose vehicle which issued collateralised linked loans ("CLLs") and collateralised linked notes ("CLNs") and which were sold to investors. The CLLs and CLNs benefited from a guarantee by Sovereign Wealth Fund A, in return for which Sovereign Wealth Fund A Subsidiary was granted an option to acquire a 49% interest in the subsidiary of 1MDB acquiring the power assets; and

(3) the third transaction was a US$3 billion bond issuance, known internally within Goldman Sachs as Project Catalyze. Work on the transaction commenced in January 2013, and it closed in March 2013. The proceeds were to be used by 1MDB to fund its contribution to a US$6 billion strategic government to government backed joint venture between 1MDB and Sovereign Wealth Fund A Subsidiary. The Catalyze bonds benefited from a letter of support from the Malaysian government.

2.2 The 1MDB bond transactions were originated by a team of bankers based in Asia (the "Deal Team"), who handled the day-to-day work on the 1MDB bond transactions. Individuals from various Goldman Sachs entities, including GSI, were involved in the review and approval of the 1MDB bond transactions, including as part of the firmwide transaction committee review processes.

3. HOW GSI MANAGED RISK - GSI'S GOVERNANCE AND OVERSIGHT FRAMEWORK FOR THE 1MDB BOND TRANSACTIONS

3.1. The 1MDB bond transactions were reviewed and approved in accordance with Goldman Sachs' global governance and oversight framework, which utilised a combination of GSI and broader Goldman Sachs resources and personnel. In particular, the 1MDB bond transactions were subject to:

(1) due diligence by business and control functions; and

(2) review and approval by relevant transaction committees.

Due diligence by business and control functions

3.2. GSI considered that both Malaysia and the jurisdiction in which Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary were based were at the higher risk end of the range of jurisdictions in relation to which GSI undertook business, given their higher levels of legal, compliance, and other reputational risks. In addition, the use of third parties and intermediaries was widely known within GSI to be common practice in these jurisdictions. Transactions with parties in such jurisdictions were therefore required to undergo a commensurately higher level of due diligence.

3.3. The due diligence process for the 1MDB bond transactions involved various business and control functions, including the Deal Team, Conflicts, Legal (including a sub-function within Legal called the "Business Intelligence Group" ("BIG") which conducted research and due diligence on legal, regulatory and reputational risk matters) and Compliance. The process included financial and management due diligence; auditor due diligence; diligence in relation to the underlying acquisitions; identification and management of potential conflicts of interest; and review of legal and compliance issues and reputational risks.

Transaction committee review and approval process

3.4. The 1MDB bond transactions were also subject to a transaction committee review and approval process. Due to the 1MDB bond transactions' size and nature, they were each reviewed, and approved, by the Firmwide Capital Committee ("FWCC") and Firmwide Suitability Committee ("FWSC"):

(1) The FWCC was responsible for providing global approval and oversight of debt-related transactions; and

(2) The FWSC was responsible for overseeing standards and policies for client, product and transaction suitability.

3.5. For the transactions to proceed, they had to be approved by both the FWCC and the FWSC. Both transaction committees consisted of very senior and experienced Goldman Sachs personnel from across the business, including a significant number of GSI senior personnel.

3.6. In advance of a committee meeting, the Deal Team typically provided a memorandum (or a supplement to an earlier memorandum) to the committee members to facilitate their review of the proposed transaction (known as "Deal Memos"). Deal Memos generally included key factual information (including a background to and overview of the transaction, including principal transaction terms), a summary of the due diligence undertaken and key discussion points or transaction concerns including the work done to address or mitigate issues identified. At each meeting, the committee was expected to discuss the proposed transaction and ask questions of the Deal Team where relevant or appropriate, after which the committee could reject or approve the transaction, or require "follow-ups" to be completed, either prior to further committee review or as part of a conditional approval.

Assessment and management of key risk factors

3.7. The transaction committees were responsible for the assessment of legal, regulatory, and capital risks and the management of reputational risks arising out of transactions which were referred to them.

3.8. The Deal Memos were prepared by the Deal Team with input from a range of control functions, including BIG, Legal, Compliance and the Debt Underwriting Group (whose responsibilities included ensuring that FWCC memoranda conformed with the process requirements and met certain standards, minuting meetings, liaising between deal teams and the FWCC and tracking follow-up items). The Deal Memos were required to highlight any key discussion points and areas of concern ("risk factors") which a committee might be interested in discussing.

3.9. Key risk factors considered in the Deal Memos for the 1MDB bond transactions included:

(1) Negative media coverage and allegations of corruption concerning 1MDB and criticisms of the 1MDB bond transactions;

(2) The choice of transaction structure, and the reasons why 1MDB had a preference in each of the transactions for a principal financing (each time the quickest and most expensive option) in preference to other lower-cost financing alternatives;

(3) 1MDB's planned use of proceeds, and the reasons for 1MDB wishing to raise the amount of funds proposed in Project Maximus when some of the funds raised through Project Magnolia remained unused;

(4) The absence of a stated investment plan and specific asset purchases for the Project Catalyze joint venture;

(5) The fact that there was negative carry associated with Project Catalyze (i.e. that 1MDB would be paying interest on the funds raised through the transaction whilst they were unused);

(6) The size of the profits that Goldman Sachs could potentially earn from the 1MDB bond transactions;

(7) Whether there was sufficient documentary evidence that the guarantees given by Sovereign Wealth Fund A in Project Magnolia and Project Maximus had been authorised; and

(8) The proximity of Project Catalyze to a general election being held in Malaysia.

3.10. The Deal Memos set out any mitigants that had been taken in relation to each of these points. In relation to some of the risks, the minutes of the committee meetings also highlighted follow up actions to further address and mitigate these points, which the committees required the Deal Team and control functions to take before the transactions would be approved.

3.11. The Deal Memos did not set out how the various risk factors applicable to each deal overlapped or interrelated. This meant that the transaction committees did not have adequate information to enable them to consider and assess the risks fully on a holistic basis. In addition, the Deal Memos did not identify or highlight the risk of Third Party A's involvement in the 1MDB bond transactions.

Transaction committee record keeping

3.12. The FWCC and FWSC minutes were maintained in standardised form. The FWCC minutes identified at a high-level the outcome of the committee's consideration, including any agreed action items or follow-ups, which were required to be completed before the transaction could proceed. The FWSC minutes briefly identified the areas of focus and inquiry and the high-

level outcome of the committee's consideration, including any agreed action items or follow-ups, which again were required to be completed before the transaction could proceed.

4. RISK OF INVOLVEMENT OF THIRD PARTY A

4.1. The identification and assessment of risks posed by third parties involved in transactions was an important area of legal and compliance risk for GSI, particularly where transactions involved parties in jurisdictions that posed higher levels of legal, compliance, and other reputational risks to GSI.

Knowledge of Third Party A prior to the 1MDB bond transactions

4.2. Between 2009 and 2011, two Asia-based Goldman Sachs bankers, one of whom would later be on the Deal Team on the 1MDB bond transactions ("Senior Banker A"), made two unsuccessful attempts to refer Third Party A for a Goldman Sachs private wealth account and proposed to have Goldman Sachs act for Third Party A in relation to an acquisition. These attempts were unsuccessful due to serious concerns that BIG and Compliance had about Third Party A. These concerns related to an inability to verify the sources of Third Party A's wealth and media reports of opposition political party calls for an anti-corruption investigation into Third Party A due to concerns about their source of wealth and connections to senior Malaysian government officials. In 2011, in reference to Third Party A, Compliance stated that it had "*… pretty much zero appetite for a relationship with this individual*", a view that was supported by BIG which stated that "*… this [Third Party A] is a name to be avoided*".

4.3. Prior to the 1MDB bond transactions, between 2009 and 2012, certain Goldman Sachs (including GSI) personnel had contact with Third Party A in relation to certain proposed or actual projects. In these projects, Third Party A was not Goldman Sachs' client or otherwise advised by Goldman Sachs, but had some other involvement in the transactions (e.g. acting as an adviser to clients of Goldman Sachs or to other parties involved in the transaction).

4.4. In addition, after the completion of Project Magnolia, Third Party A and/or connected entities continued to be involved in various other circumstances relating to GSI and/or Goldman Sachs, including acting as an advisor and co-investor in a transaction in which Goldman Sachs was advising another investor.

4.5. Through this, it was known within Goldman Sachs and GSI that Third Party A had links to high-ranking officials of 1MDB, Sovereign Wealth Fund A, and Sovereign Wealth Fund A Subsidiary.

Notice of the involvement of Third Party A in Project Magnolia

4.6. At the outset of Project Magnolia, Conflicts instructed the Deal Team to disclose to Conflicts any intermediary working on the deal. The Deal Team did not indicate that any intermediary was involved.

4.7. Prior to the first regional transaction review committee meeting for Project Magnolia, BIG asked Senior Banker A whether Third Party A was involved in Project Magnolia, Senior Banker A said that Third Party A was not. On 29 March 2012, BIG repeated the question at the first regional transaction review committee meeting for Project Magnolia. Senior Banker A again responded that Third Party A had no involvement.

4.8. Prior to the first FWCC meeting, BIG learned that Third Party A (who BIG knew had connections to 1MDB and to Sovereign Wealth Fund A) had attended a meeting earlier in March between Senior Banker A and a high-ranking official of Sovereign Wealth Fund A (the "March 2012 Meeting"). In response, BIG took a number of steps:

(1) BIG conducted some due diligence into the issue, including conducting media searches (which did not identify evidence of Third Party A's involvement) and asking questions of other Deal Team members (who confirmed they had no knowledge of Third Party A having any role). BIG discussed the matter again with Senior Banker A and reported that Senior Banker A had told BIG that Third Party A was present at the March 2012 Meeting, but was not involved at all in Project Magnolia.

(2) On 4 April 2012, during the first FWCC meeting to discuss Project Magnolia, BIG raised that Third Party A had attended the March 2012 Meeting. Senior Banker A told the committee that Third Party A had arranged the March 2012 Meeting, but stated that Third Party A had not attended it.

(3) After the 4 April 2012 FWCC meeting, BIG emailed Senior Banker A. BIG noted that its earlier understanding that Third Party A had attended the March 2012 Meeting was incorrect, but went on to note that Third Party A had clearly had a role in arranging the March 2012 Meeting at which a letter from a high-ranking official of 1MDB was delivered. After stating that others at GSI had historically been unable to secure such a meeting with the high-ranking official of Sovereign Wealth Fund A, BIG noted to Senior Banker A that: "[it is] *important we have no role on our side for [Third Party A]* …" and "*… we should ask that any payments from any of participants to any intermediaries are declared and transparent.*" Senior Banker A replied to say that they agreed.

(4) BIG required and Goldman Sachs received written representations from both 1MDB and Sovereign Wealth Fund A that no intermediary was involved in the transaction.

(5) After the closing of Project Magnolia, BIG requested Compliance to conduct email surveillance of the Deal Team, including to identify any potential indications of bribery or favours in connection with Project Magnolia. No issues of concern were identified.

Projects Maximus and Catalyze

4.9. Goldman Sachs took the following steps during Project Maximus and Project Catalyze:

(1) Conflicts again instructed the Deal Team to inform Conflicts and BIG if any party became involved in the transactions who could be deemed an intermediary or consultant. The Deal Team did not indicate that any intermediary was involved.

(2) BIG required and Goldman Sachs received representations from 1MDB, Sovereign Wealth Fund A and the Malaysian government that no intermediary was involved in the transactions.

(3) BIG and, in the case of Project Maximus, Legal asked the Deal Team whether any finders or intermediaries were involved in the transactions. In both transactions, the Deal Team responded that there were none. In Project Maximus, BIG also asked the Deal Team specifically whether Third Party A was involved. The Deal Team responded that Third Party A was not involved.

(4) BIG conducted further background checks and assessed relevant media reports during Project Maximus.

(5) While Project Maximus was ongoing, as part of routine deal-compliance surveillance, Compliance reviewed the emails of Senior Banker A and another senior member of the Deal Team, including looking for any reference to "1MDB" or an "intermediary". No issues of concern were identified.

4.10. Although the issue of Third Party A's involvement in Project Magnolia was raised orally by BIG at the first regional transaction review committee meeting on 29 March 2012 and the first FWCC meeting on 4 April 2012, this issue was not raised by the Deal Team as a potential issue or concern requiring discussion. Nor did the Deal Team document the issue as a compliance issue or concern or risk factor in any of the Deal Memos that were put before the transaction committees during the committee review and approval process for each of the 1MDB bond transactions.

4.11. BIG asked Senior Banker A about Third Party A on at least four occasions. Senior Banker A did not initially disclose to BIG and the transaction committees the involvement of Third Party A in arranging the March 2012 Meeting. Senior Banker A then consistently stated that Third Party A had no other or ongoing involvement in the 1MDB bond transactions. There is no evidence that BIG challenged Senior Banker A as to:

(1) Why Senior Banker A had said initially to BIG and the regional transaction committee that Third Party A had no role in Project Magnolia. Senior Banker A did so despite it being clear that Third Party A had arranged the March 2012 Meeting for the purposes of Project Magnolia; and

(2) Why Third Party A was involved in arranging the March 2012 Meeting, why Third Party A was arranging the delivery of a letter from a high-ranking official of 1MDB to a high-ranking official of Sovereign Wealth Fund A, and what Third Party A stood to benefit from doing so.

4.12. In addition, although BIG required and received representations from 1MDB, Sovereign Wealth Fund A and the Malaysian government that no intermediary had been involved, BIG did not ask specific questions during the due diligence process of 1MDB and Sovereign Wealth Fund A as to whether Third Party A was involved in the transactions (and if so, in what capacity). Further, the name of "Third Party A" or its variants was not used in any of the email searches that Goldman Sachs' control functions conducted after Project Magnolia and during Project Maximus (although it is unclear whether such searches would have raised additional information about the March 2012 Meeting which may have caused concern).

5. THE 2013 BRIBERY ALLEGATION AND 2015 MISCONDUCT ALLEGATION

The 2013 bribery allegation

5.1. In mid-2013, shortly after Project Catalyze closed, GSI senior personnel were provided with information about possible bribery relating to the joint venture the Catalyze bonds were issued to finance. The information indicated that an official at Sovereign Wealth Fund A may have been delaying funding the Sovereign Wealth Fund A Subsidiary/1MDB joint venture in order to attempt to secure a bribe (from a non-Goldman Sachs party), and also that this Sovereign Wealth Fund A official had connections to Third Party A.

5.2. This information was received amidst media and political criticism about the 1MDB bond transactions and the fees Goldman Sachs received for them, and GSI was also already on notice of the risk of Third Party A's involvement in the 1MDB bond transactions. The information therefore could have been relevant to GSI's assessment of ongoing legal, compliance or ethical risks, including the risks arising out of historic, current and future dealings or transactions involving 1MDB, Sovereign Wealth Fund A, Sovereign Wealth Fund A Subsidiary and the Sovereign Wealth Fund A official.

5.3. This information presented an issue that might raise legal, compliance and ethical concerns requiring immediate escalation to control functions in accordance with GSI internal policies. Irrespective of how the information was viewed by the individuals who received it, it was important that the control functions were given the opportunity to independently assess the credibility and significance of the information and, if deemed necessary, act on this information. However, GSI senior personnel did not escalate the information to GSI's control functions. This was particularly important as Goldman Sachs separately received similar information at a similar time alleging that the same Sovereign Wealth Fund A official had

delayed an earlier 1MDB transaction in order to secure a bribe from a non-Goldman Sachs party.

The 2015 misconduct allegation

5.4. Prior to late 2015, there were a number of known risks within GSI concerning 1MDB and the 1MDB bond transactions, including:

(1) criticisms reported in the media of 1MDB's transaction history, including the 1MDB bond transactions, Third Party A's connections to high-ranking officials of 1MDB, and alleged misconduct within 1MDB and the 1MDB bond transactions; and

(2) Senior Banker A's relationship with Third Party A, both before, during and after the 1MDB bond transactions.

5.5. In late 2015, GSI senior personnel and a GSI control function received information about a third party's suspicion that Senior Banker A had been involved in, and potentially benefitted from, misconduct relating to 1MDB. The information suggested that Third Party A may also have been involved.

5.6. There are no records of further escalation of this information, or of how the control functions at GSI and Goldman Sachs assessed this information. Further, no action was taken in response to this information in the weeks that followed.

5.7. Although in early February 2016 GSI did notify the FCA of misconduct by Senior Banker A in another matter (unrelated to the 1MDB bond transactions), GSI did not notify any UK authorities about the 2015 misconduct allegation.

6. THE ROLE OF THE 1MDB BOND TRANSACTIONS IN THE 1MDB SCANDAL

6.1. Since 2015, Goldman Sachs entities (including GSI), Third Party A, Senior Banker A, other current and former employees of Goldman Sachs entities (including GSI) and individuals at 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary have been the subject of criminal and/or regulatory investigations and actions in numerous jurisdictions in relation to political corruption, bribery and international money laundering in connection with the 1MDB bond transactions.

ANNEX B: BREACHES AND FAILINGS

1. BREACHES

1.1. During the Relevant Periods, as a result of the facts and matters set out at Annex A to the Notice, GSI breached relevant requirements of the FSA's (and from 1 April 2013, the PRA's) Principles for Businesses and (from 19 June 2014) the PRA's Fundamental Rules as they applied at the time. In particular, GSI breached:

(1) Fundamental Rule 2 and prior to 19 June 2014, Principle 2 (a firm must conduct its business with due skill, care and diligence);

(2) Principle 3 (a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems); and

(3) SYSC 9.1.1 R of the Senior Management Arrangement, Systems and Controls sourcebook (a firm must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable regulators to monitor the firm's compliance with the requirements under the regulatory system).

1.2. These rules are included at **Appendix 2**.

2. THE PRA'S EXPECTATIONS

2.1. How a firm manages legal, compliance and financial crime risks is an integral part of the PRA's assessment of a firm's safety and soundness. The PRA therefore expects firms to exercise due skill, care and diligence in upholding and maintaining the robustness of a firm's risk management systems and controls.

2.2. The failure by a firm to adequately manage financial crime risk can have a significant adverse impact on a firm's safety and soundness. These impacts can be: (i) direct, resulting from the imposition of significant financial penalties by regulators globally, and/or losses incurred from significant risk positions that become associated with alleged or actual financial crime – both can affect prudential safety and soundness; and/or (ii) indirect, such as negative reputational or legal impact. Such failures may indicate wider cultural issues at a firm such as a lack of respect for compliance and regulatory rules and requirements, particularly where failures involve individuals holding senior positions. Firms and their senior management should therefore promote a culture which emphasises the importance of identifying and managing financial crime and other legal, compliance and reputational risks.

2.3. A key area of risk in transactions is the involvement of third parties who may present legal, compliance and financial crime risks. Firms should have an effective governance and oversight framework in place to ensure that the risk of a third party being involved in a transaction is adequately and effectively identified, managed, monitored and mitigated. This includes ensuring the nature of the risk posed is fully and widely understood by the firm's governance and oversight functions and any other relevant areas of the business. Where a firm identifies such a risk to be high, the PRA expects a prudently managed firm to apply heightened scrutiny and due diligence to ensure the risk is appropriately managed and brought before the relevant oversight committees. Taking the word of senior employees, clients and parties closely involved in the transaction (who may or may not have vested interests) will not always be sufficient. A firm's enquiries must be thorough and independent and, as a minimum, make full use of the information a firm has available to it.

2.4. The PRA also expects firms to robustly uphold their internal risk management policies, including compliance policies such as escalation policies. To ensure risk is properly managed, firms must ensure employees of all seniorities comply with such policies diligently and a firm must ensure actions taken in accordance with these policies are properly recorded. Senior individuals in firms should comply with and champion these policies, acting as role models to other employees and helping to set the appropriate tone at the top and culture within their organisation. A failure to comply with these policies fails to encourage prudent risk management within the firm and across the industry, which in turn can pose a risk to safety and soundness.

2.5. The PRA expects firms to take a holistic approach to risk management and for those undertaking oversight of significant transactions to similarly approach risk identification and assessment "in the round". This requires firms to identify and assess sufficiently holistically all risks arising within transactions.

2.6. Firms should also take reasonable care to organise and control their affairs responsibly and effectively, with adequate processes in place for the recording of a firm's risk assessment and management, including determinations that no action be taken. This is important because it supports and assists the process of internal scrutiny, but also because it enables regulators to effectively identify and investigate concerns and take necessary action. Inadequate recordkeeping is a source of risk in itself as this has the potential to prevent risks being properly understood and may lead to serious issues being obfuscated or overlooked. Adequate recordkeeping requires firms to keep sufficiently detailed records of the discussion, challenge and scrutiny that its governance and oversight functions apply to the review and approval of transactions. It also requires firms to keep adequate records of how allegations or information giving rise to risk such as bribery and misconduct allegations are assessed and managed. The level of detail that the PRA expects from firms is greater in the context of large, complex transactions with a higher risk profile.

3. FAILINGS

3.1. During the Relevant Periods, GSI breached relevant requirements of the FSA's (and from 1 April 2013, the PRA's) Principles for Businesses and (from 19 June 2014) the PRA's Fundamental Rules as they applied at the time. In particular, the PRA considers that during the first Relevant Period GSI breached Principle 2 and Principle 3 of the FSA's (and from 1 April 2013, the PRA's) Principles for Businesses and SYSC 9.1.1 R as they applied at the time. The PRA also considers that during the second Relevant Period GSI breached Fundamental Rule 2 as it applied from 19 June 2014.

3.2. The PRA considers that GSI breached:

(1) Principle 2 because it failed to:

(a) exercise due skill, care and diligence when managing and documenting the risks surrounding the involvement of Third Party A in the 1MDB bond transactions;

(b) assess with due skill, care and diligence the risk factors that arose in each of the 1MDB bond transactions on a sufficiently holistic basis;

(2) Principle 3 because it failed to organise and control its affairs responsibly and effectively in relation to recording in sufficient detail the assessment and management of risk associated with the 1MDB bond transactions. In addition, GSI breached SYSC 9.1.1; and

(3) Fundamental Rule 2 and, prior to 19 June 2014, Principle 2 because it failed on two separate occasions to exercise due skill, care and diligence when managing allegations of bribery and misconduct in connection with 1MDB and the third 1MDB bond transaction.

Failure to manage the risk of Third Party A's involvement in the 1MDB bond transactions

3.3. GSI's governance and oversight framework failed adequately to manage and document the risks surrounding the involvement in the 1MDB bond transactions of Third Party A, an individual about whom GSI had previously identified serious concerns both generally and in relation to the 1MDB bond transactions.

3.4. It was particularly important that the risk of Third Party A's involvement in the 1MDB bond transactions was thoroughly scrutinised and considered by GSI's governance and oversight framework, given: (i) Third Party A's involvement in prior transactions involving Senior Banker A, 1MDB, Sovereign Wealth Fund A and/or Sovereign Wealth Fund A Subsidiary; (ii) Third

Party A's connections to high ranking officials in Malaysia and the foreign government of Sovereign Wealth Fund A; and (iii) the concerns Goldman Sachs previously had regarding Third Party A's unverified source of wealth and media reports of opposition political party calls for an anti-corruption investigation into Third Party A due to concerns about their source of wealth and connections to senior Malaysian government officials. Although some steps were taken by BIG, Legal, Compliance and others to scrutinise the issue (as noted in Annex A), these steps were inadequate to fully assess and mitigate the risk of Third Party A's involvement.

3.5. In particular, GSI failed to adequately investigate the involvement of Third Party A in the first 1MDB bond transaction. Instead, there was an overreliance on the statements of the Deal Team and the transaction parties when managing the legal and compliance risks of Third Party A's involvement. A firm's governance and oversight framework is expected to carefully scrutinise the representations of deal team members, especially when they give inconsistent information. In particular, having already been alerted to the involvement in Project Magnolia of Third Party A, an individual about whom BIG and Compliance had serious concerns and had previously turned down as a potential client of the firm, GSI failed to undertake sufficient actions to investigate and challenge Senior Banker A's inconsistent statements that Third Party A was not involved in the transaction. The steps taken to independently verify this were inadequate and more specific questions should have been asked of the Deal Team, 1MDB and Sovereign Wealth Fund A during the due diligence process for Project Magnolia about the possible involvement of Third Party A. In addition, the name of "Third Party A" was not used in the email searches that GSI and Goldman Sachs' control functions conducted after Project Magnolia and during Project Maximus.

3.6. GSI also failed to ensure that sufficient analysis was provided and accurate information was presented to the FWCC and FWSC about the risks associated with Third Party A's involvement in the 1MDB bond transactions. In particular, while the question of Third Party A's involvement was raised by BIG at two transaction review committee meetings for Project Magnolia on 29 March 2012 and 4 April 2012, and although the Project Maximus Deal Memos noted that representations as to the absence of intermediaries had been or would be provided, the issue was not raised by members of the Deal Team as a potential issue or concern requiring discussion, and indeed was not referred to at all in the Deal Memos that were put before the transaction committees. Similarly, the fact that a senior member of the Deal Team had made prior attempts to on-board Third Party A as a client of the firm was not raised before the committees as a potential issue or concern requiring discussion, and was not referred to at all in the Deal Memos that were put before the transaction committees. This prevented the FWCC and FWSC from being able to appropriately identify, challenge and make informed decisions about the mitigation of the legal, compliance and reputational risks of Third Party A's involvement in Project Magnolia and potential involvement in the remaining 1MDB bond transactions.

Failure to assess risks on a sufficiently holistic basis

3.7. GSI failed to act with adequate due skill, care and diligence by failing to assess sufficiently holistically the risks identified for each 1MDB bond transaction.

3.8. As set out in Annex A, the Deal Team identified risk factors or key discussion points and transaction concerns in the Deal Memos. Given the size, complexity and the heightened financial crime and reputational risks associated with the 1MDB bond transactions and that not all of the risks (e.g. reputational risks arising out of negative media/political coverage) were capable of being fully mitigated, it was crucial that sufficient consideration was given to all relevant risk factors, both individually and holistically, and that the committees were presented with all relevant information to enable such consideration.

3.9. As noted in Annex A above, the Deal Memos for the three 1MDB bond transactions did not highlight the risk of Third Party A's involvement. This undermined the ability of the transaction committees to assess this risk in the round with the other attendant risk factors.

3.10. Further, in relation to the key risk factors which were highlighted in the Deal Memos, despite several steps being taken within Goldman Sachs to address each of them, the manner in which some of these risks - and the steps taken to address them - were presented and conveyed to the committees meant that the committees did not have adequate information to enable them to assess the risks fully, including the reputational and financial crime risks arising from each transaction holistically.

Inadequate record keeping of the transaction committees' assessment and management of risk

3.11. The meeting minutes that the FWCC and FWSC kept for their review and approval of the 1MDB bond transactions were inadequate.

3.12. GSI did not exercise reasonable care to ensure that there were detailed records of the discussions, scrutiny and decision-making rationale that took place at its transaction committee meetings, especially when considering the size, complexity and risks associated with the 1MDB bond transactions. In particular, neither the FWCC nor the FWSC minutes recorded how decisions leading to the approval of the transactions in the face of risk indicators such as those outlined in Annex A were reached. The recorded action items for each transaction committee's meeting minutes were themselves brief and did not particularise why follow-up action was necessary, or what specific concerns the committees had requested be addressed through the follow-up work.

3.13. As a result of these deficiencies in recordkeeping, GSI cannot sufficiently demonstrate the level of inquiry, oversight and challenge that occurred at FWCC and FWSC meetings for each of the proposed 1MDB bond transactions prior to their approval. While the PRA acknowledges

that inadequate recordkeeping does not necessarily mean that scrutiny of the 1MDB bond transactions did not take place, such deficiencies hinder both the PRA's and the firm's own ability to monitor and assess both retrospectively and contemporaneously whether a suitably high level of risk assessment and management was applied to these higher risk profile transactions.

3.14. As a result, GSI failed to comply with Principle 3 because it failed to organise and control its affairs responsibly and effectively in relation to the recording of the assessment and management of risk. In addition, GSI failed to comply with SYSC 9.1.1 R because it failed to keep sufficient records to enable the PRA to monitor its compliance with the requirements under the regulatory system, and in particular to ascertain that it had complied with its risk assessment and management obligations.

The 2013 bribery allegation: failure to escalate pursuant to GSI internal policies

3.15. GSI failed to escalate or otherwise adequately deal with information regarding possible bribery received in mid-2013 after the 1MDB bond transactions had closed. The information received should have been escalated to control functions for independent assessment pursuant to GSI internal policies. The failure to escalate this information was particularly serious because: (i) at the time there were criticisms of the 1MDB bond transactions reported in the media; (ii) GSI was on notice of the risk of Third Party A's possible involvement in the 1MDB bond transactions; (iii) Goldman Sachs separately received similar information at a similar time alleging that the same Sovereign Wealth Fund A official had delayed an earlier 1MDB transaction to secure a bribe from a non-Goldman Sachs party; and (iv) the information could have been relevant to GSI's assessment of the risks arising out of historic, current and/or future dealings or transactions with the entities and individuals involved.

3.16. Accordingly, GSI failed to comply with Principle 2 because it failed to act with due skill, care and diligence in handling information which amounted to an allegation of bribery.

The 2015 misconduct allegation: failure to manage and record risk appropriately

3.17. GSI failed to adequately manage and record the risks presented by an allegation received in late 2015 of misconduct by Senior Banker A in relation to 1MDB.

3.18. While GSI escalated this information to a control function, there is no record of how the control functions at GSI and Goldman Sachs assessed this information, or of further escalation of the information. Further, no action was taken in response to this allegation in the weeks that followed and it was several weeks before Senior Banker A was placed under heightened surveillance following the discovery of other non-1MDB related misconduct. GSI also failed to notify any of the relevant UK authorities about the allegation.

3.19. As a result, GSI failed to comply with Fundamental Rule 2 because it failed to prudently manage and record the risks presented by the 2015 misconduct allegation with due skill, care and diligence.

Conclusions on failings

3.20. GSI's failings in relation to Third Party A's involvement in the 1MDB bond transactions, the holistic assessment of risk factors, the recording of transaction committee meetings, the 2013 bribery allegation and the 2015 misconduct allegation each involved a failure to adequately manage and record risk appropriately. How a firm manages risk is an integral part of the PRA's assessment of a firm's safety and soundness. These failings are particularly significant given the scale and higher risk profile of the 1MDB bond transactions. These breaches therefore had the potential to impact adversely on GSI's safety and soundness and GSI fell short of the PRA's expectations.

3.21. As a result of these failings, GSI breached Principle 2, Principle 3, and SYSC 9.1.1 R during the first Relevant Period and Fundamental Rule 2 during the second Relevant Period.

ANNEX C: PENALTY ANALYSIS

1. PENALTY FRAMEWORK

1.1. GSI's breaches occurred in the periods 1 February 2012 to 30 May 2013 and 1 October 2015 to 3 February 2016 (the "Relevant Periods"). The PRA took over prudential regulation of GSI on 1 April 2013. As the breaches continued after 1 April 2013, pursuant to article 11(6)(b) of the Transitional Provisions Order, the PRA must apply its penalty regime set out in the PRA's Penalty Policy.

2. FINANCIAL PENALTY

2.1. The PRA's Penalty Policy sets out the PRA's policy for imposing a financial penalty. Pursuant to paragraphs 12 to 36 of the PRA's Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

2.2. The PRA considered whether to calculate separate penalties in respect of GSI's breaches of Principle 2, Fundamental Rule 2, Principle 3 and SYSC 9.1.1 R. However, as the facts underpinning the misconduct in relation to these breaches are linked, the PRA concluded that a single penalty calculation is appropriate.

***Step 1*: Disgorgement**

2.3. Pursuant to paragraph 17 of the PRA's Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its regulatory requirements, where it is practicable to ascertain and quantify them.

2.4. Disgorgement has been addressed in the action taken by an overseas authority against GSI's ultimate parent company, The Goldman Sachs Group, Inc. As such, the PRA considers that it does not need to separately address the question of disgorgement.

2.5. The Step 1 figure is therefore **£0**.

***Step 2:* The seriousness of the breach**

2.6. Pursuant to paragraph 18 of the PRA's Penalty Policy, at Step 2 the PRA determines a starting point figure for the punitive penalty, having regard to: (i) the seriousness of the breach by the firm (including the threat or potential threat it posed or continues to pose to the advancement of the PRA's statutory objectives); and (ii) a suitable indicator of the size and financial position of the firm.

2.7. Paragraph 19(a) of the PRA's Penalty Policy sets out that a suitable indicator of the size and financial position of the firm may include, but is not limited to, the firm's total revenue or its revenue in respect of one or more areas of its business.

2.8. Pursuant to the PRA's Penalty Policy (at footnote 22), where the PRA determines that revenue is not an appropriate indicator of the size and financial position of the firm for the purpose of determining a penalty for the breach, it may use an appropriate alternative indicator.

2.9. In this case, the PRA considers that GSI's total revenue or revenue in respect of one or more business areas is not an appropriate starting point for the purpose of determining a financial penalty for the breaches, as it would result in a disproportionately high penalty. The PRA determines that the appropriate metric is the difference between the price at which GSI purchased the bonds issued through the 1MDB bond transactions and the price at which it sold the bonds (plus interest earned on the bonds whilst they were held by GSI), as this has a close nexus to the misconduct to which the action relates.

2.10. Accordingly, the starting point figure is **US$643,871,222**.

Step 2 Factors

2.11. Having established an appropriate starting point figure, pursuant to paragraph 19(c) of the PRA's Penalty Policy, in determining the seriousness of the breach the PRA will apply an appropriate percentage rate to the starting point figure to produce a figure at Step 2 that properly reflects the nature, extent, scale and gravity of the breaches.

2.12. Pursuant to paragraphs 21 to 23 of the PRA's Penalty Policy, the PRA has taken the following factors into account to determine the seriousness of the breach:

(1) How a firm manages risk is an integral part of the PRA's assessment of a firm's safety and soundness. The failure to adequately manage financial crime risk can have a significant adverse impact on a firm's safety and soundness. These impacts can be: (i) direct, resulting from the imposition of significant financial penalties by regulators globally, and/or losses incurred from significant risk positions that become associated with alleged or actual financial crime – both can affect prudential safety and soundness; and/or (ii) indirect, such as negative reputational or legal impact. GSI's management of risk was critically important in this instance given the enhanced risk profile of the 1MDB bond transactions. GSI's breaches therefore had the potential to impact adversely on the advancement of the PRA's general objective.

(2) The duration of GSI's breaches was over two separate periods totalling 20 months and some breaches were repeated throughout each period. In particular, GSI's Principle 2 breaches that relate directly to the 1MDB bond transactions persisted across three

transactions executed over the course of 11 months and involved individuals at senior positions within GSI.

(3) The breaches that occurred in 2013 and 2015, when there was a failure to act appropriately after receiving information relating to possible bribery and misconduct in relation to the third 1MDB bond transaction and 1MDB, directly involved senior GSI personnel.

(4) GSI earned significant sums from the 1MDB bond transactions totalling $643,871,222.

(5) GSI's breaches reflected weaknesses in its internal procedures and controls relating to part of its business.

(6) GSI's breaches were not deliberate or reckless.

2.13. The PRA has also had regard to the matters set out at Annexes A and B to this Notice.

2.14. Taking all of these factors into account, the PRA considers the seriousness of the conduct to be such that the appropriate seriousness percentage is 20%.

2.15. The Step 2 figure is therefore 20% x US$643,871,222 = **US$128,774,244**.

Step 3: **Adjustment for any aggravating, mitigating or other relevant factors**

2.16. Pursuant to paragraph 24 of the PRA's Penalty Policy, the PRA may increase or decrease the Step 2 figure (excluding any amount to be disgorged pursuant to Step 1, which is not applicable in this instance) to take account of any factors which may aggravate or mitigate the breaches, or other factors which may be relevant to the breaches or the appropriate level of penalty in respect of it. The factors that may aggravate or mitigate the breach include those set out at paragraphs 25 and 26 of the PRA's Penalty Policy.

2.17. The PRA considers that the following factors are relevant:

(1) GSI has cooperated during the PRA's and FCA's joint investigation.

(2) Since 2013, GSI has made changes to its governance and control arrangements. In particular, GSI has made changes to its compliance and surveillance programmes with the aim of improving the identification of instances of corruption or fraud, and at group level Goldman Sachs has introduced a "Firmwide Reputational Risk Committee". GSI has also changed its record-keeping arrangements, by requiring that more detailed records of transaction committee meetings are maintained.

(3) The firm's previous disciplinary history. In September 2010, the FSA imposed a financial penalty on GSI of £17.5 million for breaches of Principles 2, 3 and 11 (including

a failure to conduct its business with due skill, care and diligence with respect to its regulatory reporting obligations).

(4) Several overseas authorities and law enforcement agencies have taken action against other Goldman Sachs entities for their conduct in relation to the 1MDB bond transactions.

2.18. The FCA's action against GSI is also a relevant factor. The FCA has taken action to impose a financial penalty on GSI of £69,012,000 (equivalent to US$90,000,000) (reduced after settlement discount to £48,308,400 (equivalent to US$63,000,000)) in relation to the same facts and matters.

2.19. Having taken into account the above factors, the PRA considers that it is appropriate to decrease the Step 2 figure by 55%.

2.20. The Step 3 figure is therefore 55% x US$128,774,244 = **US$57,948,410**.

Step 4: **Adjustment for deterrence**

2.21. Pursuant to paragraph 27 of the PRA's Penalty Policy, if the PRA considers the penalty determined following Steps 2 and 3 is insufficient effectively to deter the person that committed the breach, or others, from committing similar or other breaches, it may increase the penalty at Step 4 by making an appropriate deterrence adjustment to it. The PRA has also considered the financial penalty that the FCA has imposed on GSI in respect of misconduct arising from broadly the same facts and matters.

2.22. The PRA considers that the Step 3 figure of US$57,948,410 should be increased in order to achieve an effective deterrent to GSI or other firms from committing similar breaches. Therefore, the PRA considers that it is appropriate to increase the Step 3 figure to US$90,000,000.

2.23. The Step 4 figure is therefore **US$90,000,000** (equivalent to **£69,012,000**).[1]

Step 5: **Application of any applicable reductions for early settlement or serious financial hardship**

2.24. Pursuant to paragraph 29 of the PRA's Penalty Policy, if the PRA and the firm on whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA's Settlement Policy provides that the amount of the penalty which would otherwise have been payable may, subject to the stage at which a binding settlement agreement is reached, be reduced.

[1] Calculated in accordance with the applicable exchange rate published by the Bank of England on the date of settlement.

2.25. The PRA and GSI reached an agreement to settle during the Discount Stage and therefore a 30% settlement discount applies to the Step 4 figure.

2.26. Therefore, the Step 5 figure is **£48,308,400** (equivalent to **US$63,000,000**).

Conclusion

2.27. The PRA therefore imposes on GSI a financial penalty of **£48,308,400** for breaching Principle 2, Fundamental Rule 2, Principle 3 and SYSC 9.1.1 R.

ANNEX D: PROCEDURAL MATTERS

1. DECISION MAKER

1.1. The settlement decision makers made the decision which gave rise to the obligation to give this Notice.

1.2. This Notice is given under and in accordance with section 390 of the Act.

2. MANNER AND TIME FOR PAYMENT

2.1. GSI must pay the financial penalty in full to the PRA by no later than 4 November 2020 2020, 14 days from the date of this Notice.

2.2. If all or any of the financial penalty is outstanding on 5 November 2020, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by GSI and due to the PRA.

3. PUBLICITY

3.1. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorised persons or prejudicial to securing an appropriate degree of protection to policyholders.

4. PRA CONTACTS

4.1. For more information concerning this matter generally, contact David Chaplin at the PRA (direct line: 020 3461 6605, david.chaplin@bankofengland.co.uk).

APPENDIX 1: DEFINITIONS

THE DEFINITIONS BELOW ARE USED IN THIS NOTICE:

1. "1MDB" means 1Malaysian Development Berhad, a strategic investment and development company wholly-owned by the Malaysian government through its Ministry of Finance;

2. "the 1MDB bond transactions" means the three bond transactions in which GSI acted as sole arranger, initial purchaser, and underwriter for 1MDB in 2012 and 2013;

3. "the Act" means the Financial Services and Markets Act 2000 (as amended);

4. "BIG" means the Business Intelligence Group;

5. "Catalyze bonds" means the US$3 billion of bonds issued as a result of the Project Catalyze transaction;

6. "Compliance" means the Compliance division of Goldman Sachs;

7. "Conflicts" means the Business Selection and Conflicts Resolution Group of Goldman Sachs;

8. "CLLs" means collateralised-linked loans;

9. "CLNs" means collateralised-linked notes;

10. "Deal Memos" means the memoranda prepared and submitted by the Deal Team to committees in advance of the committees' consideration of the 1MDB bond transactions;

11. "the Deal Team" means the principally Asia-based team of Goldman Sachs bankers who originated the 1MDB bond transactions and undertook the day-to-day work on executing the 1MDB bond transactions;

12. "the FCA" means the Financial Conduct Authority;

13. "the firm" means Goldman Sachs International;

14. "the FSA" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

15. "FSMA" means the Financial Services and Markets Act 2000 (as amended);

16. "FWCC" means the Firmwide Capital Committee of Goldman Sachs;

17. "FWSC" means the Firmwide Suitability Committee of Goldman Sachs;

18. "Goldman Sachs" means the Goldman Sachs group of companies;

19. "GSI" means Goldman Sachs International;

20. “Legal” means the Legal department of Goldman Sachs;

21. “Magnolia bonds” means the US$1.75 billion in funds raised for Project Magnolia;

22. “March 2012 Meeting” means the meeting in March 2012 relating to Project Magnolia between Senior Banker A and a high-ranking official of Sovereign Wealth Fund A;

23. “Maximus bonds” means the US$1.75 billion in funds raised for Project Maximus;

24. “Notice” means the PRA’s final notice;

25. “the PRA” means the Prudential Regulation Authority;

26. “the PRA Penalty Policy” means *‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure, April 2013 – Appendix 2 – Statement of the PRA’s policy on the imposition and amount of financial penalties under the Act’*;

27. “the PRA Settlement Policy” means *‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure October 2019 – Appendix 4 - Statement of the PRA’s settlement decision-making procedure and policy for the determination and amount of penalties and the period of suspensions or restrictions in settled cases’*;

28. “Principles for Businesses” means the FSA’s Principles for Businesses;

29. “Project Catalyze” means the third 1MDB bond transaction;

30. “Project Magnolia” means the first 1MDB bond transaction;

31. “Project Maximus” means the second 1MDB bond transaction;

32. “the Relevant Periods” means the “first Relevant Period” from 1 February 2012 to 30 May 2013 and the “second Relevant Period” from 1 October 2015 to 3 February 2016;

33. “risk factors” means the discussion points or transaction concerns that related to a proposed 1MDB bond transaction;

34. “Senior Banker A” means a senior Asia-based member of the Deal Team;

35. “Sovereign Wealth Fund A” means a sovereign wealth fund that was wholly owned and controlled by a foreign government;

36. “Sovereign Wealth Fund A Subsidiary” means a subsidiary of Sovereign Wealth Fund A;

37. “SYSC” means the Senior Management Arrangements, Systems and Controls sourcebook;

38. “Third Party A” means an individual who had connections to high-ranking officials of 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary; and

39. “Transitional Provisions Enforcement Order” means the Financial Services Act 2012 (Transitional Provisions) (Enforcement) Order 2013.

APPENDIX 2: RELEVANT STATUTORY AND REGULATORY PROVISIONS

RELEVANT STATUTORY PROVISIONS

1. On 1 April 2013, a new "twin peaks" regulatory structure came into being, under which the FSA was replaced by the FCA and the PRA. The effective date of that change, 1 April 2013, is known as the date of Legal Cutover ("LCO").

2. Although the conduct to which this matter relates began prior to, and ended after, LCO, Part 5 of the Financial Services and Markets Act 2012 (Transitional Provisions) (Enforcement) Order 2013 ("the Transitional Provisions Order") permits the PRA and/or FCA to take action in relation to contraventions occurring pre-LCO but for which the PRA and/or FCA would have been the appropriate regulator had the contravention occurred on or after LCO. The PRA therefore has the power to take action in relation to this matter.

3. Pursuant to section 210(7) of the Act, the PRA must have regard to any statement published at the time when the contravention occurred when considering whether to impose a financial penalty (and if so, what amount). Since the Relevant Period commenced before 1 April 2013 but continued after that date, pursuant to article 11(6)(b) of the Transitional Provisions Order, the PRA's Penalty Policy is the relevant policy to which the PRA must have regard.

The PRA's objectives

4. The PRA has a general objective, set out in section 2B(2) of the Act, to promote the safety and soundness of PRA-authorised persons. Section 2B(3) of the Act provides that the PRA's general objective is to be advanced primarily by:

   (a) seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and

   (b) seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

Section 206 – Disciplinary powers

5. Section 206 of the Act provides that:

   a. (as at 1 July 2011): "If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act, or by any directly applicable Community regulation or decision made under the markets in financial

instruments directive or the UCITS directive, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate".

b. (as at 20 July 2012): "If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act, or by any directly applicable Community regulation or decision made under the markets in financial instruments directive or the UCITS directive or by the emission allowance auctioning regulation, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate".

c. (as at 1 April 2013): "If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate".

6. GSI is an authorised person for the purposes of section 206 of the Act. Relevant requirements imposed on authorised persons include rules made under the FSA's Principles for Businesses, the FSA's Senior Management Arrangements, Systems and Controls sourcebook (SYSC), and the PRA's Fundamental Rules.

RELEVANT REGULATORY PROVISIONS

Principles for Businesses

7. Principle 2: A firm must conduct its business with due skill, care and diligence.

8. Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Senior Management Arrangements, Systems and Controls sourcebook

9. SYSC 9.1.1 R: a firm must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable regulators to monitor the firm's compliance with the requirements under the regulatory system.

Fundamental Rules

10. Fundamental Rule 2: A firm must conduct its business with due skill, care and diligence.

RELEVANT POLICY

Approach to the supervision of banks

11. *The Prudential Regulation Authority's approach to banking supervision, April 2013* (as updated in October 2019) sets out the PRA's approach to banking supervision.

Approach to enforcement

12. *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure, April 2013* (as updated in October 2019) sets out the PRA's approach to exercising its main enforcement powers under the Act.

13. In particular, the PRA's approach to the imposition of penalties is outlined at Annex 2 - *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.