The Goldman Sachs Group, Inc. | 200 West Street | New York, New York 10282-2198
Tel: 212-902-5419

David Viniar
Chief Financial Officer

Goldman Sachs

Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel,
Switzerland

26th August 2011

Dear Committee Members,

Consultative Document: "Global systemically important banks: Assessment methodology and the additional loss absorbency requirement"

The Goldman Sachs Group, Inc. ("Goldman Sachs") is pleased to provide comments on the consultative document entitled "Global systemically important banks: Assessment methodology and the additional loss absorbency requirement". In doing so, we would like to express our appreciation of the continued efforts of the Basel Committee ("the Committee") to strengthen international capital adequacy standards.

With respect to the proposals on Global Systemically Important Banks ("G-SIBs"), we have a number of general comments:

1. We support the use of a sliding scale which requires increasing levels of loss-absorbent capital depending on the systemic importance of the institution; we consider that such a framework provides incentives for institutions to reduce their systemic importance.
2. We encourage the Committee to provide a greater degree of transparency on the criteria used to determine systemic importance (in particular, on the methodology for calculating the "scorecard" and for translating it into the additional loss absorbency bands), so that banks are incentivized to consider the potential consequences of a given action on their G-SIB banding.
3. Unless the data provided by each institution to populate the scorecard is calculated on a globally consistent basis, we are concerned that the application of the G-SIB surcharge may exacerbate apparent inconsistencies that already exist in banks' risk weighted asset calculations. We agree with the Committee's assessment that considerable work is still required to close the data gaps. Given the proposed structure of the surcharge, we also consider it critical that the data submitted by each bank be subject to appropriate audit

and / or regulatory review, and that the Basel Standards Implementation Group take an active role in ensuring globally consistent implementation of this framework.

The proposal uses a number of indicators designed to meet the stated objective of reducing the probability of failure of G-SIBs. While we have some reservations as to certain aspects of the proposed indicators and weightings, we recognize that a more risk-sensitive approach to measuring systemic risk would require a significantly more complex framework. We would, however, like to comment on four of the proposed indicators.

A. Interconnectedness / Wholesale Funding Ratio

In the "Interconnectedness" category, our primary concern is with the use of the Wholesale Funding Ratio as an indicator. The Committee rightly observes that in the recent crisis "a market run on an institution whose illiquid assets were financed by short-term liquid liabilities....spread quickly and widely to other institutions and markets". While we agree with this assessment, we note that nothing in the proposed definition of Wholesale Funding Ratio targets *short-term* liabilities. We therefore propose that, if the Wholesale Funding Indicator is to be used as an indicator, it be adjusted to exclude any medium and long-term funding (i.e. any funding in excess of one year.)

B. Cross-Jurisdictional Activity – Cross Jurisdictional Claims and Liabilities

Although we are sympathetic to the Committee's desire to incorporate some measure of a bank's global footprint in the table of indicators, we are concerned that the measurement of "cross jurisdictional claims" and "cross jurisdictional liabilities" is, in practice, much more complex and open to interpretation than it would first appear. This is likely to result in differences in reporting methodologies, and apparently minor differences of interpretation may give a distorted picture of a bank's global footprint. We advocate the use of alternative indicators, such as non-domestic revenue as a proportion of total revenue, or non-domestic balance sheet as a proportion of total balance sheet. In many cases, this information is already disclosed in quarterly or annual filings and, since it is audited, our concerns regarding data integrity and consistency are greatly mitigated.

C. Substitutability - Underwriting

We believe that "substitutability" (i.e. the ability of other providers immediately to step into the shoes of a failing bank) is an essential consideration in any assessment of systemic risk. The factors that should be considered in assessing the "substitutability" indicator for a particular activity include the number of institutions capable of providing a similar service, and the degree to which balances related to that business can be easily transferred.

We therefore disagree with the weighting given to revenues from underwriting activities: although we agree that underwriters provide a critical market function, we believe that underwriting markets are both deep and competitive, and that they have excess capacity – in other words, firms that provide underwriting services are substitutable, and their business can be readily picked up by other providers. We believe that alternative indicators should be included for other business lines where customers and clients require immediate substitutability, and where concentration and/or lack of liquidity are in doubt.

D. Complexity – OTC Derivative Notionals

Given the inclusion of OTC derivative notionals within the Basel 3 Leverage Ratio (a metric that is weighted at 20% under the "Size" category), we believe it is unnecessary to double-count by also including gross OTC derivative notionals under the "Complexity" category. Firstly, the largest notional amounts in the OTC derivative markets arise on vanilla interest rate swaps, which are not inherently complex. Secondly, gross derivative notionals merely "provide a measure of market size" (as noted by the Committee), and are a poor representation of risk; given that the 'Size' aspect of the notional has been captured under the Size category, the focus in the "Complexity" category should be on the net notional, since this is a somewhat better representation of risk.

We hope that the comments noted above are helpful to the Committee in its deliberations. Please do not hesitate to contact me should you require additional information or have any questions about the issues raised above.

Yours sincerely

David Viniar
Chief Financial Officer

cc. Michael Silva, Federal Reserve Bank of New York
Peter Domasky, Federal Deposit Insurance Corporation
Russ Damitz, New York State Banking Department
Paul Sharma, The Financial Services Authority