

Culture and Ethical Misconduct: A Tale of Two Cities

Indicator	Goldman Sachs Group	JP Morgan Chase
Primary Sources	Business Standards Impact Report BSC Impact stats	How We Do Business report
Corporate Standards	14 Business Principles	20 Business Principles
Employee communication and continuous training	Three-hour Chairman's Forum sessions focused on culture and accountability to enhance the firm's culture. Sessions conducted in 2011 and 2012. Total of 42,000 hours for 92 sessions by 2012. Additional role-specific training sessions for client-facing personnel. Unclear from the BSC reports if these sessions will be continued in the long-term.	General onboarding training sessions and management trainings for existing employees and officers. Excerpt: "Through all of our management training programs, we aim to build a strong culture of doing the right thing and doing first-class business in a first-class way."
Complaints handling and redress	Not covered. GS has a general whistleblower program in compliance with US securities regulation.	Not covered. JPMC has a general whistleblower program in compliance with US securities regulations.
Senior Persons Regime/ Specific provisions on accountability of senior executives for risk failures.	No details. The BSC report alluded to individual accountability.	No details. The report noted accountability as part of performance reviews.
Incentive system /Remuneration	Excerpts: "In relation to reputational excellence and risk management, the reviewer was asked to assess whether the reviewee: (i) balances risk and reward when making decisions; (ii) adheres to the firm's risk management practices and controls; (iii) identifies and escalates areas	Excerpt: "Impact of risk events. We consider material risk and control issues at the company, line of business and individual levels and make adjustments to compensation, when appropriate, for relevant employees."

of control risk both within his/her team(s) and teams impacted by his/her work; (iv) engages all relevant parties in decision making; (v) treats clients' information and activities with sensitivity and protects the firm from breaches of confidentiality; (vi) contributes to the development of sound risk policies, controls and infrastructure; and (vii) knows applicable policies and procedures. In relation to reputational excellence and reputational judgment and compliance, the reviewer was asked to assess whether the reviewee: (i) protects and enhances the reputation of the firm; (ii) knows applicable laws, policies and procedures; (iii) recognizes, escalates and proactively seeks guidance on issues; and (iv) contributes to the development and/or implementation of policies, procedures and controls."

Duty of care on financial products

Excerpt:
"We enhanced our suitability framework to help us better assess whether our clients have the background, experience and capacity to understand the range of outcomes from transactions they execute with us, particularly those transactions that are strategic or complex. We also increased the emphasis on individual accountability for clients in our annual employee performance

Excerpt:
"The business' suitability framework has been enhanced during the past several years and includes: • A revised client risk methodology that captures the client's risk tolerance (e.g., the client's personal comfort level in taking risks), as well as risk capacity (e.g., the client's financial ability to bear a loss) • An enhanced account product risk methodology that includes evaluating the complexity of the product and its level of risk • A

review process and, for senior client relationship professionals, in compensation determinations.” stronger trade execution control to provide an additional level of checks and balances.”

“We introduced new pre-transaction sales practices to ensure heightened due diligence before a transaction is executed. For post-transaction sales practices, we developed the capability to analyze the performance of our clients’ derivatives transactions, enabling our client relationship professionals and their managers to engage with clients as appropriate about the performance of these transactions.”

“The BSC established the Firmwide Suitability Committee in February 2011. The committee (which replaced the regional suitability committees) acts as a central point of escalation and decision-making for suitability judgments across businesses and other firmwide committees.”

Transparency of underlying assets and fee structures of sophisticated financial products

Excerpts:

“More broadly, the analytical framework and standards for disclosure applied to underwritings, private placements and other origination activities have been enhanced to facilitate market efficiency and to increase the sensitivity of our employees to the risk factors – both financial and reputational – that may be

Excerpt:

“At a more granular level, we have taken a number of steps to help our clients better understand the structure, pricing and behavior of different products. Specifically, for certain structured products, we have implemented more stringent quality standards and have upgraded our models and analytics to improve our clients’ ability to

	<p>associated with these activities.”</p> <p>“The enhanced disclosure standards require offering documents to include a broader, more visible and readable discussion of risk factors including risks arising from: (1) the structure of the instrument; (2) leverage; (3) the underlying assets; and (4) the vulnerability of the offered investment to market, credit, counterparty and reputational risk factors.”</p> <p>“Internal deliberations on underwritings, private placements and other origination activities have an increased focus on the following factors that provide context to our disclosure: (1) the impact of Goldman Sachs’ other activities (e.g., market making) on the offered investment; (2) the relationship between Goldman Sachs, the issuer, and the underlying assets; (3) the different roles Goldman Sachs has in the transaction and the scope for potential conflicts; (4) any ancillary benefits the firm might receive as an outgrowth of the transaction; and (5) the involvement of third parties in the transaction.</p>	<p>understand how these instruments perform under different conditions. We also have enhanced the consistency and transparency of disclosure around the pricing of certain structured products and increased transparency of quotations for various over-the-counter derivatives, enabling clients to make more informed decisions.”</p>
Preventing conflict of interest	<p>Excerpt:</p> <p>“The task of enhancing our conflict procedures involved a number of important changes recommended by the BSC including: (1) the development and use of “plain language” in</p>	<p>Excerpts:</p> <p>“In general, prior to seeking or accepting new financial advisory engagements, underwriting engagements (debt and equity), arranging bank financing or making new private equity</p>

engagement letters for investment banking advisory clients that clearly describes our business model and the activities of the firm's various divisions; (2) an improved framework for documentation for investment banking clients regarding conflicts issues; (3) procedures that reduce the number of investment bankers who receive sensitive client information as part of the conflicts process; (4) meaningfully reducing the turnaround time in responding to new business inquiries from clients; (5) enhanced procedures governing the "wall crossing" of our employees; (6) integrating businesses across the firm into the conflicts process; (7) compiling updated policies and procedures regarding conflicts in each of the revenue producing divisions; and (8) updated training programs on conflicts for over 8,000 employees worldwide.

investments, as well as engaging in certain other transactions, such as unusual or large equity derivative transactions, the Conflicts Office reviews and clears the proposed activity in consultation with the appropriate managers and, where appropriate, other control functions. Clearance from the Conflicts Office also is required for any undertakings or agreements with clients that restrict the company's ability to engage in activities for other clients, whether those are financing activities, advisory activities or otherwise. In addition, for financing and advisory activities, the Conflicts Office evaluates proposed deal team staffing to help ensure that confidential client information is appropriately safeguarded."

"Across our businesses, we continue to refine and strengthen our conflicts management practices. For example, Asset Management has recently created an enhanced conflicts of interest framework that provides a disciplined and structured approach to conflicts, including identification of potential conflicts present in a business unit's processes and a self-assessment to determine whether controls are operating as expected. Each conflict is assessed using four pillars: policies and procedures, governance and oversight, disclosures and validation. The pillar framework provides minimum

		standards to drive global consistency while allowing for appropriate regional differences. The business has trained more than 700 key personnel on conflicts management, the control framework and the steps to conduct an assessment. Through the enhancement and implementation of the conflicts framework, employees have been further educated on the identification and management of potential conflicts. We now are implementing a similar framework for conflicts management across the company.
Corrective actions	Not covered	Excerpt: “The company does not tolerate misconduct. Where performance reviews or other circumstances show that an individual is not meeting expectations or acts contrary to our corporate standards, the company will undertake a series of measures that may include changes in job responsibility, additional training, further formal reviews or disciplinary action, including termination for misconduct. Performance assessments, promotion reviews and compensation act together to reinforce the behaviors that reflect our Business Principles.”
Gender diversity in trading floor	None	None
Continuous reporting on progress	With the implementation of all 39 recommendations, we concluded the work of	Commitment to continuous improvement but no commitment to report on progress.

the BSC Implementation Oversight Group; however, the need to monitor the changes associated with the BSC will continue. Our Board of Directors established a special subcommittee of its Corporate Governance and Nominating Committee to reinforce a priority of our senior management: the continuous improvement of our business standards and practices.
