



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

June 7, 2013

Michael Huber
Goldman, Sachs & Co.
30 Hudson Street
27th Floor
Jersey City, NJ 07302-4699

Dear Mr. Huber:

On December 14, 2012, the Securities and Exchange Commission (“Commission”) issued an order (“Order”) granting conditional exemptive relief from compliance with certain provisions of the Securities Exchange Act of 1934 in connection with a program to commingle and portfolio margin customer positions in cleared credit default swaps (“CDS”) that include both security-based swaps and swaps in a segregated account established and maintained in accordance with Section 4d(f) of the Commodity Exchange Act (“CDS portfolio margin program”).¹ The exemptive relief granted in the Order is subject to certain conditions, including a requirement that a dually-registered broker-dealer and futures commission merchant (“BD/FCM”) operating pursuant to the Order must set minimum margin levels with respect to any customer transaction in the CDS portfolio margin program at least equal to the amount determined using a margin methodology established and maintained by the BD/FCM that has been approved in writing by the Commission or its staff. The Order also states that in appropriate circumstances the Commission or the Commission staff may provide temporary approval of a BD/FCM’s margin methodology while the methodology is still being evaluated prior to granting final approval.

On March 8, 2013, the Division issued a letter to Goldman, Sachs & Co. (“Goldman”) to permit the firm to calculate portfolio margin amounts for positions in portfolios holding cleared CDS, which include both security-based swaps and swaps, pursuant to the conditions outlined in the letter. Based on further consideration of factors relevant to your firm’s participation in the CDS portfolio margin program, including consultation with your firm, the Division is issuing this letter, which provides revised conditions for your firm’s participation in the program and supersedes the Division’s March 8, 2013 letter to your firm. Accordingly,

¹ See Order Granting Conditional Exemption Under the Securities Exchange Act of 1934 in Connection with Portfolio Margining of Swaps and Security-Based Swaps, Exchange Act Release No. 68433 (Dec. 14, 2012), 77 FR 75211 (Dec. 19, 2012).

pursuant to the Order, the Division is granting conditional temporary approval of Goldman to participate in the CDS portfolio margin program.

Specifically, Goldman is hereby granted conditional temporary approval subject to the following conditions:

- i. On or before the expiration of six months from the date of this letter, Goldman will implement a margin methodology with respect to transactions in the program that meets the conditions specified in Parts I and II below.
- ii. Goldman's internal risk model, as described in Part II below, and risk management system, as described in Part III below, for handling clients' CDS positions must be approved by the Commission or Commission staff.
- iii. In connection with any business conducted under the program, Goldman agrees to collect from clients in each case a minimum clearing agency required margin amount, any additional amounts pursuant to CFTC rules, and additional margin as required by the risk management procedures described in Part III below.
- iv. The monthly reporting requirements set forth in Part I, Item 5 below begin as of June 30, 2013 to the extent such information is available for reporting.

Part I - Required Margin Regime

1. Goldman must calculate a future credit exposure using its own proprietary methodology ("internal risk model") subject to the minimum model standards described in Part II below.
2. Goldman must manage its counterparty credit risk arising from clearing CDS using the minimum risk management standards described in Part III below.
3. Goldman must calculate a concentration charge for portfolios using the following method.
 - a. Calculate the *net credit exposure* as (1) the future credit exposure from the internal risk model LESS (2) collected initial margin PLUS (3) uncollected variation margin. Uncollected variation margin in this context is understood as the amount that has not been collected by noon the following business day.
 - b. Calculate the *1% threshold* as 1% of Goldman's tentative net capital as of the firm's last filed FOCUS Report, unless there has been a substantial variation in the firm's capital.
 - c. For a client whose net credit exposure is in excess of the 1% threshold, Goldman must either collect the net credit exposure above the 1% threshold in the form of margin from its client or take a capital charge equal to that amount.

4. Goldman must maintain an internal risk report that provides a measure of the amount of leverage contained in the portfolio of each client and make available on request by the Commission or FINRA staffs those reports and other relevant aggregate statistics.
5. Goldman must report to the Commission and FINRA staffs on a monthly basis within 5 business days after month end or as otherwise requested details of its top 25 clients' portfolios as measured by net credit exposure as well as the top 25 clients' portfolios as measured by gross notional amount using the attached template.

Part II - Minimum Internal Risk Model Standards

Goldman must quantify and measure the future credit exposure of a counterparty's CDS portfolio based on its own internal risk model. Goldman's internal risk model must meet the following minimum quantitative and qualitative requirements.

Quantitative Requirements

1. The methodology must estimate a potential future exposure over a minimum 10-day horizon and 99% confidence level and capture all material risk factors, including but not limited to general movements in the credit spread term structure, basis risk between index and single name positions, and interest rate risk.
2. The methodology must include a concentration/liquidity requirement.
3. The methodology must include a jump-to-default requirement for the sale of CDS protection equal to at least the largest loss of a single name exposure assuming a conservative recovery rate that may not exceed 40%.

Qualitative Requirements

1. A proprietary margining methodology must be adequately documented. The model documentation must provide a description of the model assumptions, data inputs, parameters, and methodologies employed to measure risk.
2. The proprietary margining methodology must be subject to annual model validation by a model validation group that is independent of the business function.
3. The internal model must be subject to at least quarterly backtesting by counterparty or account.
4. Goldman must request approval from the Commission or Commission staff prior to implementing any material change to its internal risk model.
5. Goldman must maintain the ability to compute a 90-day historical initial margin requirement considering the amount of initial margin the firm would have required

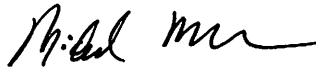
during such period and future credit exposure from the internal risk model on a set of sample CDS portfolios. Each of the computations must contain a detailed breakdown of requirements by risk factor.

Part III - Minimum Risk Management System Standards

Goldman is expected to maintain risk management standards that will independently measure and manage risk arising from clients' CDS portfolios. These standards must be independent of any central counterparty margin methodology and must consider collecting additional margin from clients in accordance with Goldman's risk management practices. The minimum requirements for Goldman's risk management system must consist of an internal credit risk model to assess the initial and ongoing credit risk of each individual counterparty. The monitoring of counterparty credit risk must include the prudent setting of exposure limits and mechanisms that would allow Goldman to limit or reduce the exposure to counterparties. The exposure limits must be reviewed at least quarterly based on Goldman's ongoing credit assessments of all of its counterparties. Positions should be valued conservatively in view of current market prices and the amount that might be realized upon liquidation. Goldman must also have the ability to raise margin requirements or lower exposure limits based on changes in the counterparty's credit risk profile. Goldman must raise margin requirements or limit counterparty exposure when positions or markets are excessively volatile. Well-defined procedures and systems must be in place for the daily collection and payment of initial and variation margin.

Please do not hesitate to contact me at (202) 551-5525 if you have any questions.

Sincerely,



Michael A. Macchiaroli