

Estimated Revenue Analysis

Per the Commission's request, please find below an analysis of the firm's estimated revenues associated with derivatives activities. We would make several important points:

Like every other major financial institution, Goldman Sachs does not manage its trading desks or its trading risk such that aggregate firmwide revenues generated by derivative transactions can be separately delineated from revenues generated by any other form of trading. Desks are responsible for facilitating customer transactions in a particular asset class regardless of whether a customer is seeking to execute a trade in cash or derivative form, and for managing their risk holistically, no matter in what form that risk was obtained.

For example, desks in credit products generally organize themselves by industry sectors, e.g. financials or telecoms. Traders in each of these sectors are indifferent between having risk in credit derivative form or in bond form and will trade both with clients. Residual credit risk is minimized in the most efficient manner regardless of whether the transaction reducing credit risk is in derivative or bond form. As a consequence, the resulting portfolios are a mixture of bonds and CDS contracts and any tracking or analysis of net revenue dissecting the two product lines would have no relevance or significance. Similar relationships exist between derivative and cash instruments across all other product classes.

Since we do not use aggregate firmwide derivative revenues as information to manage our trading business, our systems have not been designed to track revenues in this manner.

In the absence of this information, and in an effort to be responsive to the Commission's request, we have attempted to derive a potential range of aggregate firmwide revenues from derivative activities by performing a rough analysis of our major businesses from 2006 to 2009 and allocating them as either "cash" or "derivatives". We did this based on our best guess as to the predominant form of trading in each desk, as well as an estimated allocation of franchise trading activity between "cash" and "derivatives". We note that revenues from "derivatives" include both exchange-traded and over-the-counter transactions, and from transactions entered into by Goldman Sachs affiliates world-wide.

The results of this analysis are below:

Business	Estimated % of Activity from Fee Based and Cash-based Businesses	Estimated % of Activity from Derivative-based businesses
Firmwide	65% to 75%	25% to 35%
Equities	80% to 85%	15% to 20%
FICC	45% to 50%	50% to 55%
Interest Rate Products	45% to 50%	50% to 55%
Currencies	35% to 45%	55% to 65%
Commodities	25% to 30%	70% to 75%
Credit	55% to 65%	35% to 45%
Mortgages	40% to 70%	30% to 60%
Merchant Banking	100%	N/A
Investment Banking	100%	N/A
Investment Management	100%	N/A

To be clear, these percentages do not accurately reflect the percentage of aggregate firmwide revenues from derivative transactions, since each individual business is a mix of derivative and non-derivative activity.

We also reiterate that the results above were prepared solely for the purposes of your request and we would not (and do not) use this information in the management of our businesses. In fact, failure to analyze and report risk on a fully integrated basis (i.e., without regard to the form in which that risk was obtained) would be extremely detrimental to effective risk management.

It is our understanding that none of our major competitors track aggregate derivative revenues. We have discussed U.S. GAAP reporting requirements with respect to revenues from derivative transactions with both our regulators and our external auditors, PricewaterhouseCoopers. Based on those discussions and other research we have performed, we continue to believe there is no requirement for institutions that include derivatives with their cash trading activities to report aggregate firmwide revenues from derivative transactions.

Also, as stated by the Financial Accounting Standards Board in paragraph A35 of the basis for conclusions to Financial Accounting Standard FAS 161: Disclosures about Derivative Instruments and Hedging Activities, "A dealer's trading activity often is included in a trading portfolio that contains both market-making and proprietary positions. The dealer manages the overall risk in the trading portfolio by using both derivative and nonderivative instruments. Under these circumstances, disclosing the gains and losses only on derivative instruments included in a dealer's trading portfolio would not be meaningful (and could even be misleading) because the offsetting losses and gains on the nonderivative instruments included in the same trading portfolio are not disclosed. The Board agreed with those concerns and decided that an entity does not have to complete certain sections of the required statement of financial performance tabular disclosure as long as the entity includes alternative disclosures about gains and losses from trading activities that include nondesignated/nonqualifying derivative instruments as well as nonderivative instruments."

Finally, at the June 30th 2010 hearing the Commission specifically referred to revenues from derivative trading that purportedly were provided by Goldman Sachs and other firms to the Office of the Comptroller of the Currency. As the Commission is aware, however, the reports submitted to the OCC do not reflect derivative revenues, but instead include combined cash and derivative revenues for our bank subsidiary, exactly consistent with the way we track and report our business activities.