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Settlement Agreement between the Central Bank of Ireland and Goldman Sachs Bank (Europe) plc

The Central Bank of Ireland (“the Central Bank”) has entered into a Settlement Agreement with effect from 08 September 2011 with Goldman Sachs Bank (Europe) plc (“the firm”), a regulated financial service provider in relation to breaches of regulation 16(3) of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (“the Regulations”).

These breaches related to:

- 1) the firm failing, during the period 16 July 2008 to 17 December 2010, to comply with regulation 16(3)(b) of the Regulations in that the firm’s processes failed to manage, monitor and report accurately its regulatory counterparty risk capital requirement; and
- 2) the firm failed, during the period 16 July 2008 to 17 December 2010, to comply with regulation 16(3)(c) of the Regulations in that the firm’s internal control mechanism failed to identify that its regulatory counterparty risk capital requirement was incorrectly calculated.

The Central Bank reprimanded the firm and required it to pay a monetary penalty of €160,000.

On 13 December 2010 the firm disclosed errors in calculations of the firm’s counterparty risk requirement to the Central Bank. This issue arose due to an error in the firm’s in-house regulatory counterparty risk capital requirement calculation, in that it did not correctly

distinguish between long term product ratings and long term issuer ratings nor the scenarios in which they should be separately applied. The firm's control mechanisms failed to identify that its regulatory counterparty risk capital requirement was incorrectly calculated. As a result of this error, the firm incorrectly calculated their regulatory capital requirements between 16 July 2008 and 17 December 2010. The error at issue did not result in any breach of the capital adequacy ratios and no counterparties were impacted.

In deciding the appropriate penalty to impose, the Central Bank has taken the following into account:

- the regulatory capital maintained by the firm between 16 July 2008 and 17 December 2010 was at all times in excess of its capital requirements;
- the firm notified the Central Bank and has taken appropriate remedial steps to rectify the breaches; and
- the cooperation of the firm during the investigation and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms that the matter is now closed.

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The Central Bank of Ireland also issued a general comment from Director of Enforcement, Peter Oakes:

'The existence of adequate systems and controls is a priority area identified in the Enforcement Directorate's Strategy Document 2011 – 2012.

The existence of proper systems and controls to ensure continuous and proper calculation of risk and regulatory capital requirements is essential to the maintenance of stable and properly financed financial service providers. The reliance on automated systems should therefore be tempered by adequate oversight to ensure that systems and controls are, and continue to be, comprehensive and proportionate.

Firms are reminded to monitor and test their internal control systems on a regular basis and should take great care to ensure that any changes to systems are properly and fully tested so that regulatory requirements are adhered to and all regulatory reports provided to the Central Bank are accurate.’