JOHN B. FULLERTON
[redacted]

March 18, 2009

Mr. Lloyd Blankfein
Chairman and CEO
Goldman Sachs
85 Broad Street
New York, NY 10004

Dear Mr. Blankfein,

I write to commend your February 8 Financial Times article "Do not destroy the essential catalyst of risk", a welcome glimpse of responsibility and accountability from Wall Street leadership. Integrity is the ability to acknowledge responsibility. Your article suggests an understanding of this truth, but falls short of the mark. Let me explain.

Privately, no doubt you share my view that, but for the unprecedented government interventions, the financial system, including Goldman Sachs itself, would likely have collapsed. We are in extraordinary times, which call for unprecedented statesmanship from our financial leaders. As a trader by training, you grasp our predicament better than many leaders on Wall Street. But as a trader, you've not had the responsibility of global financial statesman. Until now.

Goldman Sachs' Business Principles state: "a reputation, if diminished, is the most difficult asset to restore." Events have already set forces in motion that will make the task of rebuilding reputations long and arduous, undoubtedly defining the rest of your Goldman career. Risks are high for unpredictable consequences. Admiral Blair, Director of US National Intelligence, recently said that instability caused by the economic collapse now represents a greater threat to our nation than terrorism.

We must say, unfair as it may be to the many honest, hard working professionals in the industry, that there is blood on our collective hands, well beyond Madoff's. The growing and widespread suffering of literally *billions* of people is a direct result of the finance industry's collective irresponsibility. Yes, some were far worse than others, but no leading firm is in a position to throw stones. As the head of Goldman Sachs, this is the horrific responsibility which integrity demands you must shoulder. No one asks for such a burden, but it was always part of the trade.

With all the complexity of modern finance, the public does not understand the nuance of this collapse any more than it understood the evil of 9-11. The public is similarly fearful and angry. Imagine that. We know that fear is the root of violence.

Therefore, it is imperative to understand the market failures that you talk about in a wider context as we consider appropriate responses. No doubt Wall Street must be held to account. Such justice is the very bedrock of civil society. Justice must supersede any near term impact on "the essential catalyst of risk" if trust is to be restored.

I broadly agree with the seven lessons learned and eight principles outlined in your Financial Times article. However, most of these were learned with the collapse of Long Term Capital Management and have been well documented in now three iterations of industry self-regulatory guidelines, beginning with the Counterparty Risk Management Policy Group I ("CRMPG I") report published ten years ago. It was followed by the 2005 CRMPG II report titled "Toward Greater Financial Stability", and updated again in August of 2008 in a report titled "Containing Systemic Risk: The Road to Reform". As you know, Gerry Corrigan of Goldman Sachs, formerly the head of the NY Fed, chairs the CRMPG. The result of these self-regulatory initiatives was failure.

These comprehensive reports clearly demonstrate concerns at the highest levels about the industry perpetuated systemic risks that necessitated the bailout of AIG and others. We can't blame risk models as has recently become fashionable. These reports urged the importance of stress testing, and highlighted the age-old imperative of sound judgment.

Despite the clear and present dangers, many management teams failed to heed their own recommendations. Many boards were either asleep, unqualified for their duties, or mislead by management, in some cases intentionally. Regulators, swept up in popular ideology, were not strategically focused and far too timid. Rather than reducing systemic risk in the wake of Long Term Capital, risks escalated with the advent of credit derivatives, their unfathomable scale, unique non-linear risk, and inadequate controls. Meanwhile, systematic "rating agency arbitrage" accelerated as if it were a game.

Adding fuel to the fire, capital requirements were loosened at the urging of firms like Goldman Sachs, most recklessly with the relaxation of the SEC's leverage limit in 2004. Like many, I first heard about this decision only a few months ago. This critical technical change was then systematically and irresponsibly exploited under the nose of regulators and the financial press with absurd degrees of leverage and liquidity mismatches. The banks chose to "continue to dance" out of some combination of competitive pressure and irresponsible greed, the "everyone else was doing it" excuse we reject from our children.

It is completely unfair for John Thain's name to appear next to Bernie Madoff's; their errors were different in kind. But the public is angry and looking for heads. Justice is often improperly served in unstable and fearful environments, but served it will be as we have re-learned in the aftermath of 9-11. How better to underscore the imperative for genuine financial statesmanship at this moment in history?

Respectfully, I would challenge you to a higher standard of integrity and financial statesmanship than is evident in your Financial Times article. Justice demands consequences. It is the necessary precondition for the critical restoration of trust.

Passing up a bonus in 2008 was the right call. Your exemplary leadership on this issue deserves recognition, but that gesture alone comes up short. It is now clear that the profits earned in aggregate by the industry going back several years were illegitimate for the most part because catastrophic systemic risks were externalized to taxpayers like me. Furthermore, Goldman Sachs and many others undoubtedly would not have survived AIG and the chaos its collapse would have triggered, had your former boss not acted when he did during that fateful weekend you shared with him at the Fed. I'm sure Paulson's motivation was systemic risk and rightly so. But certainly you and your partners must acknowledge the unjust windfall of not having to watch your Goldman stock, *collectively $7 billion by my estimation*, follow down the Lehman drain hole. And Larry Summers is "outraged" at $165mm in AIG bonuses?

True integrity demands accepting responsibility and saying this truth. True integrity would involve at the very least, Goldman partner forfeiture of all deferred stock bonus accounts earned over the past three years. Is that stock any more legitimate than Mrs. Madoff's Park Avenue apartment? The kind of illegitimacy is different, just as first-degree murder is different than involuntary manslaughter. But illegitimate it is, just as the victim of manslaughter caused by an irresponsible drunk driver is no less dead than the victim of pre-meditated murder.

Reaping the benefit of the government bailout on stock earned out of illegitimate profits is doubly unjust. Financial statesmanship would begin by leading a broad based industry initiative to define and contribute this "illegitimate stock" into a Restitution and Reform Fund with two objectives. First, it would offer some restitution to innocent victims at home and abroad, where we've outsourced much of the unemployment this "recession" will generate. Second, it would fund thoughtful cross-disciplinary research and debate on fundamental reform that will frame a "post modern capitalism" that is socially just and ecologically sustainable. I offer to lead this initiative, and coordinate it with the profound work on this subject well underway. Perhaps such leadership would pre-empt less thoughtful responses from Congress.

The real lesson of this crisis is well understood in ecology and complexity science: how quickly we loose control when complex systems collapse. Financial statesmanship will heed this warning as we define the rules and ethics of a "post modern capitalism" that respects the global economy's rightful place as a subsystem of the biosphere, and finance's rightful purpose as servant to, not master of, a just economy.

I hope you and your peers can rise to this historic challenge. The issues at hand are far more profound than the risk of regulatory overshoot your article is concerned with. Taking up this challenge will demand a foundation of genuine integrity, not half gestures. It is a worthy purpose. It is a path to personal fulfillment and legacy money can't buy.

Sincerely,

J.S. Fult

John Fullerton

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Lloyd C. Blankfein
Chairman & Chief Executive Officer

Goldman Sachs

April 27, 2009

John B. Fullerton
[redacted]

Dear Mr. Fullerton:

Thank you for your recent letter. I appreciate you taking the time to share your thoughts and ideas as a response to my op-ed.

We certainly recognize that financial institutions have lost a lot of credibility. While we are proud of how Goldman Sachs has managed our risk and generated solid performance amidst very difficult conditions, no one has to remind us that our industry collectively failed to live up to the obligations the public expected.

I trust you have seen my recent speech before the Council of Institutional Investors. I hope you regard it as a step forward in our collective responsibility to improve accountability, transparency and the systemic management of risk.

I wish to clarify two specific points in your letter. In terms of Goldman Sachs benefitting from decisions to save AIG and let Lehman Brothers fail, the fact is that our firm had more net economic exposure to Lehman at the time of its bankruptcy than it did to AIG. Second, Goldman Sachs produced a substantial profit of $2.3 billion last year. During our first quarter, we generated strong performance. And, because we are a mark-to-market firm, we believe the assets on our balance sheet are a true and realistic reflection of book value.

People are angry and understandably ask why their tax dollars have to support large financial institutions. That's why we believe strongly that those institutions that are able to repay the public's investment without adversely affecting their financial profile or curtailing their role and responsibilities in the capital markets are obligated to do so.

Best regards,