GOLDMAN SACHS GROUP INC
Form 10-Q
November 03, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4019460 (I.R.S. Employer Identification No.)
200 West Street, New York, N.Y. (Address of principal executive offices)	10282 (Zip Code)

(212) 902-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of October 16, 2015, there were 426,536,163 shares of the registrant s common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended September		Nine Months Ended September	
in millions, except per share amounts	**2015**	2014	**2015**	2014
Revenues				
Investment banking	**$1,556**	$1,464	**$ 5,480**	$ 5,024
Investment management	**1,331**	1,386	**4,400**	4,262
Commissions and fees	**859**	783	**2,517**	2,441
Market making	**1,730**	2,087	**7,964**	6,911
Other principal transactions	**543**	1,618	**3,822**	5,116
Total non-interest revenues	**6,019**	7,338	**24,183**	23,754
Interest income	**2,119**	2,297	**6,304**	7,470
Interest expense	**1,277**	1,248	**3,940**	4,384
Net interest income	**842**	1,049	**2,364**	3,086
Net revenues, including net interest income	**6,861**	8,387	**26,547**	26,840
Operating expenses				
Compensation and benefits	**2,351**	2,801	**10,619**	10,736
Brokerage, clearing, exchange and distribution fees	**665**	624	**1,950**	1,832
Market development	**123**	129	**409**	408
Communications and technology	**200**	190	**601**	576
Depreciation and amortization	**222**	301	**706**	985

Occupancy	**182**	212	**572**	627
Professional fees	**253**	220	**714**	656
Other expenses	**819**	605	**3,270**	1,873
Total non-compensation expenses	**2,464**	2,281	**8,222**	6,957
Total operating expenses	**4,815**	5,082	**18,841**	17,693
Pre-tax earnings	**2,046**	3,305	**7,706**	9,147
Provision for taxes	**620**	1,064	**2,388**	2,836
Net earnings	**1,426**	2,241	**5,318**	6,311
Preferred stock dividends	**96**	98	**324**	266
Net earnings applicable to common shareholders	**$1,330**	$2,143	**$ 4,994**	$ 6,045
Earnings per common share				
Basic	**$ 2.95**	$ 4.69	**$ 11.03**	$ 13.05
Diluted	**2.90**	4.57	**10.84**	12.69
Dividends declared per common share	**$ 0.65**	$ 0.55	**$ 1.90**	$ 1.65
Average common shares outstanding				
Basic	**449.0**	455.5	**451.2**	461.8
Diluted	**458.6**	469.2	**460.9**	476.5

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2015**	2014	**2015**	2014
Net earnings	**$1,426**	$2,241	**$5,318**	$6,311
Other comprehensive income/(loss) adjustments, net of tax:				
Currency translation	**(39)**	(44)	**(94)**	(103)
Pension and postretirement liabilities	**36**	(7)	**(74)**	(21)
Cash flow hedges		3		5
Other comprehensive loss	**(3)**	(48)	**(168)**	(119)
Comprehensive income	**$1,423**	$2,193	**$5,150**	$6,192

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(Unaudited)

$ in millions, except per share amounts	As of **September 2015**	December 2014
Assets		
Cash and cash equivalents	**$ 65,575**	$ 57,600
Cash and securities segregated for regulatory and other purposes (includes $38,044 and $34,291 at fair value as of September 2015 and December 2014, respectively)	**58,168**	51,716
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes $125,265 and $126,036 at fair value as of September 2015 and December 2014, respectively)	**126,903**	127,938
Securities borrowed (includes $68,481 and $66,769 at fair value as of September 2015 and December 2014, respectively)	**173,315**	160,722
Receivables:		
Brokers, dealers and clearing organizations	**46,986**	30,671
Customers and counterparties (includes $6,346 and $6,944 at fair value as of September 2015 and December 2014, respectively)	**52,016**	63,808
Loans receivable	**42,189**	28,938
Financial instruments owned, at fair value (includes $52,029 and $64,473 pledged as collateral as of September 2015 and December 2014, respectively)	**290,487**	312,248
Other assets	**24,920**	22,201
Total assets	**$880,559**	$855,842
Liabilities and shareholders equity		
Deposits (includes $14,802 and $13,523 at fair value as of September 2015 and December 2014, respectively)	**$ 91,458**	$ 82,880
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	**89,481**	88,215
	3,519	5,570

Securities loaned (includes $1,081 and $765 at fair value as of September 2015 and December 2014, respectively)		
Other secured financings (includes $23,787 and $21,450 at fair value as of September 2015 and December 2014, respectively)	**25,222**	22,809
Payables:		
Brokers, dealers and clearing organizations	**6,956**	6,636
Customers and counterparties	**215,822**	206,936
Financial instruments sold, but not yet purchased, at fair value	**125,428**	132,083
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes $16,390 and $18,826 at fair value as of September 2015 and December 2014, respectively)	**41,331**	44,539
Unsecured long-term borrowings (includes $20,820 and $16,005 at fair value as of September 2015 and December 2014, respectively)	**175,817**	167,302
Other liabilities and accrued expenses (includes $1,446 and $831 at fair value as of September 2015 and December 2014, respectively)	**17,822**	16,075
Total liabilities	**792,856**	773,045
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $11,200 and $9,200 as of September 2015 and December 2014, respectively	**11,200**	9,200
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 863,546,793 and 852,784,764 shares issued as of September 2015 and December 2014, respectively, and 427,904,332 and 430,259,102 shares outstanding as of September 2015 and December 2014, respectively	**9**	9
Share-based awards	**4,011**	3,766
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	**51,281**	50,049
Retained earnings	**83,105**	78,984
Accumulated other comprehensive loss	**(911)**	(743)
Stock held in treasury, at cost, par value $0.01 per share; 435,642,463 and 422,525,664 shares as of September 2015 and December 2014, respectively	**(60,992)**	(58,468)

Total shareholders equity	**87,703**	82,797
Total liabilities and shareholders equity	**$880,559**	$855,842

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

$ in millions	**Nine Months Ended September 2015**	Year Ended December 2014
Preferred stock		
Balance, beginning of year	**$ 9,200**	$ 7,200
Issued	**2,000**	2,000
Balance, end of period	**11,200**	9,200
Common stock		
Balance, beginning of year	**9**	8
Issued		1
Balance, end of period	**9**	9
Share-based awards		
Balance, beginning of year	**3,766**	3,839
Issuance and amortization of share-based awards	**2,147**	2,079
Delivery of common stock underlying share-based awards	**(1,738)**	(1,725)
Forfeiture of share-based awards	**(70)**	(92)
Exercise of share-based awards	**(94)**	(335)
Balance, end of period	**4,011**	3,766
Additional paid-in capital		
Balance, beginning of year	**50,049**	48,998
Delivery of common stock underlying share-based awards	**2,037**	2,206
Cancellation of share-based awards in satisfaction of withholding tax requirements	**(1,185)**	(1,922)
Preferred stock issuance costs	**(7)**	(20)
Excess net tax benefit related to share-based awards	**388**	788
Cash settlement of share-based awards	**(1)**	(1)
Balance, end of period	**51,281**	50,049

Retained earnings		
Balance, beginning of year	**78,984**	71,961
Net earnings	**5,318**	8,477
Dividends and dividend equivalents declared on common stock and share-based awards	**(873)**	(1,054)
Dividends declared on preferred stock	**(324)**	(400)
Balance, end of period	**83,105**	78,984
Accumulated other comprehensive loss		
Balance, beginning of year	**(743)**	(524)
Other comprehensive loss	**(168)**	(219)
Balance, end of period	**(911)**	(743)
Stock held in treasury, at cost		
Balance, beginning of year	**(58,468)**	(53,015)
Repurchased	**(2,545)**	(5,469)
Reissued	**29**	49
Other	**(8)**	(33)
Balance, end of period	**(60,992)**	(58,468)
Total shareholders equity	**$ 87,703**	$ 82,797

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September	
$ in millions	**2015**	2014
Cash flows from operating activities		
Net earnings	**$ 5,318**	$ 6,311
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	**706**	985
Share-based compensation	**2,107**	1,931
Gain related to extinguishment of junior subordinated debt	**(34)**	(270)
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	**(6,452)**	5,480
Receivables and payables (excluding loans receivable), net	**4,524**	12,952
Collateralized transactions (excluding other secured financings), net	**(12,902)**	(52,273)
Financial instruments owned, at fair value	**18,366**	13,228
Financial instruments sold, but not yet purchased, at fair value	**(6,753)**	4,580
Other, net	**(4,714)**	(5,515)
Net cash provided by/(used for) operating activities	**166**	(12,591)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	**(1,205)**	(508)
Proceeds from sales of property, leasehold improvements and equipment	**120**	17
Business acquisitions, net of cash acquired	**(1,684)**	(626)
Proceeds from sales of investments	**714**	1,127
Loans receivable, net	**(12,692)**	(10,601)
Net cash used for investing activities	**(14,747)**	(10,591)

Cash flows from financing activities		
Unsecured short-term borrowings, net	**(1,228)**	1,417
Other secured financings (short-term), net	**(492)**	417
Proceeds from issuance of other secured financings (long-term)	**10,772**	5,700
Repayment of other secured financings (long-term), including the current portion	**(7,360)**	(5,562)
Proceeds from issuance of unsecured long-term borrowings	**36,031**	30,402
Repayment of unsecured long-term borrowings, including the current portion	**(22,513)**	(19,940)
Purchase of trust preferred securities	**(1)**	(1,429)
Derivative contracts with a financing element, net	**(89)**	550
Deposits, net	**8,578**	7,144
Common stock repurchased	**(2,545)**	(4,219)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	**(1,197)**	(1,045)
Proceeds from issuance of preferred stock, net of issuance costs	**1,993**	1,980
Proceeds from issuance of common stock, including exercise of share-based awards	**220**	79
Excess tax benefit related to share-based awards	**388**	706
Cash settlement of share-based awards	**(1)**	(1)
Net cash provided by financing activities	**22,556**	16,199
Net increase/(decrease) in cash and cash equivalents	**7,975**	(6,983)
Cash and cash equivalents, beginning of year	**57,600**	61,133
Cash and cash equivalents, end of period	**$ 65,575**	$ 54,150

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $4.09 billion and $5.45 billion during the nine months ended September 2015 and September 2014, respectively.

Cash payments for income taxes, net of refunds, were $2.20 billion and $2.51 billion during the nine months ended September 2015 and September 2014, respectively.

Non-cash activities:

The firm exchanged $262 million of Trust Preferred Securities and common beneficial interests held by the firm for $296 million of the firm s junior subordinated debt held by the issuing trust during the nine months ended September 2015. Following the exchange, this junior subordinated debt was extinguished.

The firm exchanged $1.59 billion of Trust Preferred Securities, common beneficial interests and senior guaranteed trust securities held by the firm for $1.86 billion of the firm s junior subordinated debt held by the issuing trusts during the nine months ended September 2014. Following the exchange, this junior subordinated debt was extinguished.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Description of Business

The Goldman Sachs Group, Inc. (Group Inc. or parent company), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

The firm reports its activities in the following four business segments:

Investment Banking

The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments. Services include strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local and cross-border transactions, as well as derivative transactions directly related to these activities.

Institutional Client Services

The firm facilitates client transactions and makes markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. The firm also makes markets in and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and other prime brokerage services to institutional clients.

Investing & Lending

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, some of which are consolidated, directly and indirectly through funds that the firm manages, in debt securities and loans, public and private equity securities, and real estate entities.

Investment Management

The firm provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. The firm also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

Note 2.

Basis of Presentation

These condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. Intercompany transactions and balances have been eliminated.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm s Annual Report on Form 10-K for the year ended December 31, 2014. References to the 2014 Form 10-K are to the firm s Annual Report on Form 10-K for the year ended December 31, 2014. The condensed consolidated financial information as of December 31, 2014 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to September 2015, June 2015 and September 2014 refer to the firm s periods ended, or the dates, as the context requires, September 30, 2015, June 30, 2015 and September 30, 2014, respectively. All references to December 2014 refer to the date December 31, 2014. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3.

Significant Accounting Policies

The firm s significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for goodwill and identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 13 for policies on goodwill and identifiable intangible assets, and below and Note 12 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Loans Receivable	Note 9
Collateralized Agreements and Financings	Note 10
Securitization Activities	Note 11
Variable Interest Entities	Note 12
Other Assets, including Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16

Consolidation

The firm consolidates entities in which the firm has a controlling financial interest. The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the firm has a majority voting interest in a voting interest entity, the entity is consolidated.

Variable Interest Entities. A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The firm has a controlling financial interest in a VIE when the firm has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 12 for further information about VIEs.

Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but can exert significant influence over the entity s operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of the entity s common stock or in-substance common stock.

In general, the firm accounts for investments acquired after the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm s principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 13 for further information about equity-method investments.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Investment Funds. The firm has formed numerous investment funds with third-party investors. These funds are typically organized as limited partnerships or limited liability companies for which the firm acts as general partner or manager. Generally, the firm does not hold a majority of the economic interests in these funds. These funds are usually voting interest entities and generally are not consolidated because third-party investors typically have rights to terminate the funds or to remove the firm as general partner or manager. Investments in these funds are included in Financial instruments owned, at fair value. See Notes 6, 18 and 22 for further information about investments in funds.

Use of Estimates

Preparation of these condensed consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets, discretionary compensation accruals and the provisions for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

Investment Banking. Fees from financial advisory assignments and underwriting revenues are recognized in earnings when the services related to the underlying transaction are completed under the terms of the assignment. Expenses associated with such transactions are deferred until the related revenue is recognized or the assignment is otherwise concluded. Expenses associated with financial advisory assignments are recorded as non-compensation expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

Investment Management. The firm earns management fees and incentive fees for investment management services. Management fees for mutual funds are calculated as a percentage of daily net asset value and are received monthly. Management fees for hedge funds and separately managed accounts are calculated as a percentage of month-end net asset value and are generally received quarterly. Management fees for private equity funds are calculated as a percentage of monthly invested capital or commitments and are received quarterly, semi-annually or annually, depending on the fund. All management fees are recognized over the period that the related service is provided. Incentive fees are calculated as a percentage of a fund s or separately managed account s return, or excess return above a specified benchmark or other performance target. Incentive fees are generally based on investment performance over a 12-month period or over the life of a fund. Fees that are based on performance over a 12-month period are subject to adjustment prior to the end of the measurement period. For fees that are based on investment performance over the life of the fund, future investment underperformance may require fees previously distributed to the firm to be returned to the fund. Incentive fees are recognized only when all material contingencies have been resolved. Management and incentive fee revenues are included in Investment management revenues.

The firm makes payments to brokers and advisors related to the placement of the firm s investment funds. These payments are computed based on either a percentage of the management fee or the investment fund s net asset value. Where the firm is principal to the arrangement, such costs are recorded on a gross basis and included in Brokerage, clearing, exchange and distribution fees, and where the firm is agent to the arrangement, such costs are recorded on a net basis in Investment management revenues.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Commissions and Fees. The firm earns Commissions and fees from executing and clearing client transactions on stock, options and futures markets, as well as over-the-counter (OTC) transactions. Commissions and fees are recognized on the day the trade is executed.

Transfers of Assets

Transfers of assets are accounted for as sales when the firm has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any gains or losses are recognized in net revenues. Assets or liabilities that arise from the firm s continuing involvement with transferred assets are recognized at fair value. For transfers of assets that are not accounted for as sales, the assets remain in Financial instruments owned, at fair value and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 10 for further information about transfers of assets accounted for as collateralized financings and Note 11 for further information about transfers of assets accounted for as sales.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of September 2015 and December 2014, Cash and cash equivalents included $6.85 billion and $5.79 billion, respectively, of cash and due from banks, and $58.73 billion and $51.81 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value and collateral posted in connection with certain derivative transactions. Substantially all of these receivables are accounted for at amortized cost net of estimated uncollectible amounts. Certain of the firm s receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in Market making revenues. See Note 8 for further information about receivables from customers and counterparties accounted for at fair value under the fair value option. In addition, as of September 2015 and December 2014, the firm s receivables from customers and counterparties included $1.63 billion and $400 million, respectively, of loans held for sale, accounted for at the lower of cost or fair value. See Note 5 for an overview of the firm s fair value measurement policies.

As of September 2015 and December 2014, the carrying value of receivables not accounted for at fair value generally approximated fair value. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6 through 8. Had these items been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in Interest income.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6 through 8. Had these receivables and payables been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm s prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6 through 8. Had these payables been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014. Interest on payables to customers and counterparties is recognized over the life of the transaction and included in Interest expense.

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Offsetting Assets and Liabilities

To reduce credit exposures on derivatives and securities financing transactions, the firm may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated. In addition, the firm receives and posts cash and securities collateral with respect to its derivatives and securities financing transactions, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination rights the right to liquidate the collateral and apply the proceeds to any amounts owed. In order to assess enforceability of the firm s right of setoff under netting and credit support agreements, the firm evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the condensed consolidated statements of financial condition when a legal right of setoff exists under an enforceable netting agreement. Resale and repurchase agreements and securities borrowed and loaned transactions with the same term and currency are presented on a net-by-counterparty basis in the condensed consolidated statements of financial condition when such transactions meet certain settlement criteria and are subject to netting agreements.

In the condensed consolidated statements of financial condition, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the condensed consolidated statements of financial condition, resale and repurchase agreements, and securities borrowed and loaned, are not reported net of the related cash and securities received or posted as collateral. See Note 10 for further information about collateral received and pledged, including rights to deliver or repledge collateral. See Notes 7 and 10 for further information about offsetting.

Share-based Compensation

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. The firm accounts for the tax benefit related to dividend equivalents paid on RSUs as an increase to additional paid-in capital.

The firm generally issues new shares of common stock upon delivery of share-based awards. In certain cases, primarily related to conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards accounted for as equity instruments. For these awards, whose terms allow for cash settlement, additional paid-in capital is adjusted to the extent of the difference between the value of the award at the time of cash settlement and the grant-date value of the award.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income.

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Recent Accounting Developments

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASC 205 and ASC 360). In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. The ASU requires expanded disclosures for discontinued operations and disposals of individually significant components of an entity that do not qualify for discontinued operations reporting. The ASU was effective for disposals and components classified as held for sale that occurred within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption was permitted. The firm early adopted ASU No. 2014-08 in 2014 and adoption did not materially affect the firm s financial condition, results of operations, or cash flows.

Revenue from Contracts with Customers (ASC 606). In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 by one year, to annual reporting periods beginning after December 15, 2017. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASC 860). In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. ASU No. 2014-11 changes the accounting for repurchase- and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU No. 2014-11 also requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales were effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for certain securities financing transactions were required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Adoption of ASU No. 2014-11 did not materially affect the firm s financial condition, results of operations, or cash flows.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASC 810). In August 2014, the FASB issued ASU No. 2014-13, Consolidation (Topic 810) Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (CFE). ASU No. 2014-13 provides an alternative to reflect changes in the fair value of the financial assets and the financial liabilities of the CFE by measuring either the fair value of the assets or liabilities, whichever is more observable. ASU No. 2014-13 provides new disclosure requirements for those electing this approach, and is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. Adoption of ASU No. 2014-13 will not materially affect the firm s financial condition, results of operations, or cash flows.

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Amendments to the Consolidation Analysis (ASC 810). In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis. ASU No. 2015-02 eliminates the deferral of the requirements of ASU No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities for certain interests in investment funds and provides a scope exception from Topic 810 for certain investments in money market funds. The ASU also makes several modifications to the consolidation guidance for VIEs and general partners investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted and the firm intends to early adopt in the fourth quarter of 2015. Adoption of ASU No. 2015-02 will not materially affect the firm s financial condition, results of operations, or cash flows.

Simplifying the Presentation of Debt Issuance Costs (ASC 835). In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 simplifies the presentation of debt issuance costs by requiring that these costs related to a recognized debt liability be presented in the statement of financial condition as a direct reduction from the carrying amount of that liability. ASU No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU No. 2015-03 is required to be applied retrospectively to all periods presented beginning in the year of adoption. Early adoption is permitted. The firm early adopted ASU No. 2015-03 in September 2015. In accordance with ASU No. 2015-03, previously reported amounts have been conformed to the current presentation, as reflected in Notes 13 through 16. The impact of adoption as of September 2015 and December 2014 was a reduction to both total assets and total liabilities of $444 million and $398 million, respectively.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent) (ASC 820). In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). ASU No. 2015-07 requires that investments for which the fair value is measured at NAV using the practical expedient (investments in funds measured at NAV) under Fair Value Measurements and Disclosures (Topic 820) be excluded from the fair value hierarchy. ASU No. 2015-07 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU No. 2015-07 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The firm early adopted ASU No. 2015-07 in June 2015 and adoption did not affect the firm s financial condition, results of operations, or cash flows. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation. See Notes 4 through 6 for the disclosures required by ASU No. 2015-07.

Simplifying the Accounting for Measurement-Period Adjustments (ASC 805). In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments. ASU No. 2015-16 eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. ASU No. 2015-16 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Adoption of ASU

No. 2015-16 will not materially affect the firm s financial condition, results of operations, or cash flows.

Note 4.

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about other financial assets and financial liabilities accounted for at fair value primarily under the fair value option.

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The tables below present the firm s financial instruments owned, at fair value, and financial instruments sold, but not yet purchased, at fair value.

	As of September 2015	
$ in millions	**Financial Instruments Owned**	**Financial Instruments Sold, But Not Yet Purchased**
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 4,636**	**$**
U.S. government and federal agency obligations	**51,357**	**11,163**
Non-U.S. government and agency obligations	**31,666**	**18,483**
Loans and securities backed by commercial real estate	**5,904** [1]	
Loans and securities backed by residential real estate	**13,212** [2]	
Bank loans and bridge loans	**11,844**	**434**
Corporate debt securities	**17,492**	**5,726**
State and municipal obligations	**1,570**	
Other debt obligations	**1,862** [3]	**1**
Equities and convertible debentures	**81,091**	**38,124**
Commodities	**3,466**	**435**
Investments in funds measured at NAV	**7,896**	
Subtotal	**231,996**	**74,366**
Derivatives	**58,491**	**51,062**
Total	**$290,487**	**$125,428**

	As of December 2014	
$ in millions	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 3,654	$
U.S. government and federal agency obligations	48,002	12,762
Non-U.S. government and agency obligations	37,059	20,500
Loans and securities backed by commercial real estate	7,140 [1]	1
Loans and securities backed by residential real estate	11,717 [2]	
Bank loans and bridge loans	14,171	464
Corporate debt securities	21,419	5,800
State and municipal obligations	1,203	
Other debt obligations	3,257 [3]	2
Equities and convertible debentures	87,900	28,314
Commodities	3,846	1,224
Investments in funds measured at NAV	9,610	
Subtotal	248,978	69,067
Derivatives	63,270	63,016
Total	$312,248	$132,083

1. Includes $3.74 billion and $4.97 billion of loans backed by commercial real estate as of September 2015 and December 2014, respectively.

2. Includes $9.79 billion and $6.43 billion of loans backed by residential real estate as of September 2015 and December 2014, respectively.

3. Includes $410 million and $618 million of loans backed by consumer loans and other assets as of September 2015 and December 2014, respectively.

Gains and Losses from Market Making and Other Principal Transactions

The table below presents Market making revenues by major product type, as well as Other principal transactions revenues. These gains/(losses) include both realized and unrealized gains and losses, and are primarily related to the firm s financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table below are not representative of the manner in which the firm manages its business activities because many of the firm s market-making and client facilitation strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm s longer-term derivatives across product types are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm s cash instruments and derivatives across product types has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

	Three Months		Nine Months	
$ in millions	Ended September		Ended September	
Product Type	**2015**	2014	**2015**	2014
Interest rates	**$ (132)**	$(2,811)	**$ 146**	$ (3,267)
Credit	**298**	497	**1,218**	2,699
Currencies	**(656)**	3,689	**1,135**	4,545
Equities	**1,968**	498	**4,671**	1,725
Commodities	**252**	214	**794**	1,209
Market making	**1,730**	2,087	**7,964**	6,911
Other principal transactions [1]	**543**	1,618	**3,822**	5,116
Total	**$2,273**	$ 3,705	**$11,786**	$12,027

1. Other principal transactions are included in the firm s Investing & Lending segment. See Note 25 for net revenues, including net interest income, by product type for Investing & Lending, as well as the amount of net interest income included in Investing & Lending.

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Note 5.

Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The firm measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced parameters as inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread, or difference, between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument s level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement. The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the firm had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

The fair values for substantially all of the firm s financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm s credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

See Notes 6 through 8 for further information about fair value measurements of cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value primarily under the fair value option (including information about unrealized gains and losses related to level 3 financial assets and financial liabilities, and transfers in and out of level 3), respectively.

The table below presents financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP. Counterparty and cash collateral netting represents the impact on derivatives of netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

	As of		
$ in millions	**September 2015**	June 2015	December 2014
Total level 1 financial assets	**$124,475**	$143,808	$139,484
Total level 2 financial assets	**464,679**	423,629	466,030
Total level 3 financial assets	**27,213**	32,412	35,780
Investments in funds measured at NAV	**7,896**	8,956	9,610
Counterparty and cash collateral netting	**(95,640)**	(90,510)	(104,616)
Total financial assets at fair value	**$528,623**	$518,295	$546,288
Total assets [1]	**$880,559**	$859,454	$855,842
Total level 3 financial assets as a percentage of total assets	**3.1%**	3.8%	4.2%
Total level 3 financial assets as a percentage of total financial assets at fair value	**5.1%**	6.3%	6.5%
Total level 1 financial liabilities	**$ 65,269**	$ 63,772	$ 59,697
Total level 2 financial liabilities	**256,247**	247,883	253,364
Total level 3 financial liabilities	**16,949**	18,353	15,904
Counterparty and cash collateral netting	**(45,230)**	(39,075)	(37,267)
Total financial liabilities at fair value	**$293,235**	$290,933	$291,698
Total level 3 financial liabilities as a percentage of total financial liabilities at fair value	**5.8%**	6.3%	5.5%

1. Includes $856 billion as of September 2015, and $834 billion as of both June 2015 and December 2014, that is carried at fair value or at amounts that generally approximate fair value.

The table below presents a summary of level 3 financial assets. See Notes 6 through 8 for further information about level 3 financial assets.

Level 3 Financial Assets as of

$ in millions	**September 2015**	June 2015	December 2014
Cash instruments	**$ 20,305**	$ 26,195	$ 28,650
Derivatives	**6,866**	6,175	7,074
Other financial assets	**42**	42	56
Total	**$ 27,213**	$ 32,412	$ 35,780

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Level 3 financial assets as of September 2015 decreased compared with June 2015 and December 2014, primarily reflecting a decrease in level 3 cash instruments. See Note 6 for further information about changes in level 3 cash instruments.

Note 6.

Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government and agency obligations, bank loans and bridge loans, corporate debt securities, equities and convertible debentures, investments in funds measured at NAV, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. See below for the types of cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the firm s fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, actively traded listed equities, certain government agency obligations and money market instruments. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales of financial assets.

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Valuation Techniques and Significant Inputs

The table below presents the valuation techniques and the nature of significant inputs. These valuation techniques and significant inputs are generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	**Valuation Techniques and Significant Inputs**
Loans and securities backed by commercial real estate Collateralized by a single commercial real estate property or a portfolio of properties May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)

Loans and securities backed by residential real estate Collateralized by portfolios of residential real estate May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Significant inputs include: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral Market yields implied by transactions of similar or related assets Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines, related costs and subsequent recoveries Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation Duration

Commercial paper, certificates of deposit, time deposits and other money market instruments Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation Duration
Equities and convertible debentures (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: Industry multiples (primarily EBITDA multiples) and public comparables Transactions in similar instruments Discounted cash flow techniques Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include:

Market and transaction multiples

Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates

For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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Significant Unobservable Inputs

The table below presents the ranges and weighted averages of significant unobservable inputs used to value the firm s level 3 cash instruments. In the table below:

Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.

Weighted averages are calculated by weighting each input by the relative fair value of the financial instruments.

The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in the tables below for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm s level 3 cash instruments. Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm s level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples, long-term growth rate or compound annual growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm s level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

		Range of Significant Unobservable Inputs (Weighted Average)	
Level 3 Cash Instruments	**Valuation Techniques and Significant Unobservable Inputs**	**As of September 2015**	As of December 2014

Loans and securities backed by commercial real estate Collateralized by a single commercial real estate property or a portfolio of properties May include tranches of varying levels of subordination *($2.11 billion and $3.28 billion of level 3 assets as of September 2015 and December 2014, respectively)*	Discounted cash flows:		
	Yield	3.1% to 20.0% (11.1%)	3.2% to 20.0% (10.5%)
	Recovery rate	31.6% to 96.4% (57.6%)	24.9% to 100.0% (68.3%)
	Duration (years)	0.2 to 5.5 (2.2)	0.3 to 4.7 (2.0)
	Basis	(9) points to 4 points ((2) points)	(8) points to 13 points (2 points)
Loans and securities backed by residential real estate Collateralized by portfolios of residential real estate May include tranches of	Discounted cash flows:		
	Yield	2.9% to 12.0% (7.4%)	1.9% to 17.5% (7.6%)
	Cumulative loss rate	6.0% to 41.6% (27.0%)	0.0% to 95.1% (24.4%)
	Duration (years)	1.5 to 13.1 (7.0)	0.5 to 13.0 (4.3)

varying levels of subordination			
($1.64 billion and $2.55 billion of level 3 assets as of September 2015 and December 2014, respectively)			
Bank loans and bridge loans	Discounted cash flows:		
	Yield	1.4% to 27.8% (9.8%)	1.4% to 29.5% (8.7%)
($3.76 billion and $6.97 billion of level 3 assets as of September 2015 and December 2014, respectively)	Recovery rate	16.9% to 85.1% (52.6%)	26.6% to 92.5% (60.6%)
	Duration (years)	0.4 to 6.2 (2.4)	0.3 to 7.8 (2.5)
Non-U.S. government and agency obligations	Discounted cash flows:		
	Yield	1.0% to 19.3% (10.1%)	0.9% to 24.4% (9.2%)
Corporate debt securities	Recovery rate	0.0% to 71.7% (62.1%)	0.0% to 71.9% (59.2%)
	Duration (years)	1.3 to 12.8 (4.9)	0.5 to 19.6 (3.7)
State and municipal obligations			

Other debt obligations *($2.96 billion and $4.75 billion of level 3 assets as of September 2015 and December 2014, respectively)*			
Equities and convertible debentures (including private equity investments and investments in real estate entities) *($9.84 billion and $11.11 billion of level 3 assets as of September 2015 and December 2014, respectively)*	Market comparables and discounted cash flows:		
	Multiples	0.8x to 21.0x (4.8x)	0.8x to 16.6x (6.5x)
	Discount rate/yield	6.0% to 20.0% (14.4%)	3.7% to 30.0% (14.4%)
	Long-term growth rate/ compound annual growth rate	3.0% to 9.9% (5.2%)	1.0% to 10.0% (6.0%)
	Capitalization rate	5.3% to 12.5% (7.5%)	3.8% to 13.0% (7.6%)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Fair Value of Cash Instruments by Level

The tables below present cash instrument assets and liabilities at fair value by level within the fair value hierarchy. Cash instrument assets and liabilities are

included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively.

	Cash Instrument Assets at Fair Value							
	As of September 2015				As of December 2014			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 961**	**$ 3,675**	**$**	**$ 4,636**	$	$ 3,654	$	$ 3,654
U.S. government and federal agency obligations	**23,201**	**28,156**		**51,357**	18,540	29,462		48,002
Non-U.S. government and agency obligations	**26,873**	**4,780**	**13**	**31,666**	30,255	6,668	136	37,059
Loans and securities backed by commercial real estate		**3,799**	**2,105**	**5,904**		3,865	3,275	7,140

Loans and securities backed by residential real estate		**11,572**	**1,640**	**13,212**		9,172	2,545	11,717
Bank loans and bridge loans		**8,083**	**3,761**	**11,844**		7,198	6,973	14,171
Corporate debt securities	**264**	**14,910**	**2,318**	**17,492**	249	17,537	3,633	21,419
State and municipal obligations		**1,481**	**89**	**1,570**		1,093	110	1,203
Other debt obligations		**1,321**	**541**	**1,862**		2,387	870	3,257
Equities and convertible debentures	**60,036**	**11,217**	**9,838** [2]	**81,091**	68,974	7,818	11,108 [2]	87,900
Commodities		**3,466**		**3,466**		3,846		3,846
Subtotal	**$111,335**	**$92,460**	**$20,305**	**$224,100**	$118,018	$92,700	$28,650	$239,368
Investments in funds measured at NAV				**7,896**				9,610
Total [1]				**$231,996**				$248,978

Cash Instrument Liabilities at Fair Value

	As of September 2015				As of December 2014			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	**$ 11,143**	**$ 20**	**$**	**$ 11,163**	$ 12,746	$ 16	$	$ 12,762
Non-U.S. government and agency obligations	**16,703**	**1,780**		**18,483**	19,256	1,244		20,500
Loans and securities backed by commercial						1		1

real estate								
Bank loans and bridge loans		**305**	**129**	**434**		286	178	464
Corporate debt securities	**4**	**5,720**	**2**	**5,726**		5,741	59	5,800
Other debt obligations			**1**	**1**			2	2
Equities and convertible debentures	**37,391**	**646**	**87**	**38,124**	27,587	722	5	28,314
Commodities		**435**		**435**		1,224		1,224
Total	**$ 65,241**	**$ 8,906**	**$ 219**	**$ 74,366**	$ 59,589	$ 9,234	$ 244	$ 69,067

1. Includes collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) backed by real estate and corporate obligations of $313 million in level 2 and $915 million in level 3 as of September 2015, and $234 million in level 2 and $1.34 billion in level 3 as of December 2014, respectively.

2. Includes $9.09 billion of private equity investments, $327 million of investments in real estate entities and $423 million of convertible debentures as of September 2015, and $10.25 billion of private equity investments, $294 million of investments in real estate entities and $562 million of convertible debentures as of December 2014.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur.

During the three months ended September 2015:

Transfers into level 2 from level 1 of cash instruments were $95 million, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments.

Transfers into level 1 from level 2 of cash instruments were $113 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the nine months ended September 2015:

Transfers into level 2 from level 1 of cash instruments were $138 million, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments.

Transfers into level 1 from level 2 of cash instruments were $264 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the three months ended September 2014:

Transfers into level 2 from level 1 of cash instruments were $25 million, reflecting transfers of public equity securities due to decreased market activity in these instruments.

Transfers into level 1 from level 2 of cash instruments were $1 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the nine months ended September 2014:

Transfers into level 2 from level 1 of cash instruments were $65 million, including $47 million of public equity securities and $18 million of U.S. government and federal agency obligations primarily due to decreased market activity in these instruments.

Transfers into level 1 from level 2 of cash instruments were $80 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

See level 3 rollforward below for information about transfers between level 2 and level 3.

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Level 3 Rollforward

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the period. In the tables below:

If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 cash instrument assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 cash instrument liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.

Purchases include both originations and secondary market purchases.
Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm s results of operations, liquidity or capital resources.

See Level 3 Rollforward Commentary below for an explanation of the net unrealized gains/(losses) on level 3 cash instruments, and the activity related to transfers into and transfers out of level 3.

Level 3 Cash Instrument Assets and Liabilities at Fair Value

ions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Ba…
Months Ended ber 2015									
	$ 11	$	$	$	$ (10)	$ (1)	$	$	

rcial tes sit, and oney ents									
S. nent ncy ons	21					(9)	1		
nd s by cial te	2,134	22	28	232	(100)	(131)	87	(167)	
nd s by ial te	2,717	24	29	91	(238)	(76)	69	(976)	
ans ge	5,377	55	(77)	243	(43)	(574)	152	(1,372)	
te s	2,595	51	(34)	95	(153)	(19)	161	(378)	
d al ons	143			7	(9)		12	(64)	
ebt ons	740	2	4	16	(63)	(102)		(56)	
and ble res	12,457	77	(2)	177	(93)	(514)	212	(2,476)	
ash ent	**$26,195**	**$231 [1]**	**$ (52) [1]**	**$ 861**	**$ (709)**	**$(1,426)**	**$ 694**	**$(5,489)**	**$2**
ash ent es	**$ (178)**	**$ 13**	**$ (31)**	**$ 102**	**$ (35)**	**$ 3**	**$ (98)**	**$ 5**	**$**

onths Ended September 2015

S. nent ncy ons	$ 136	$ 9	$	$ 1	$ (35)	$ (24)	$	$ (74)	$
nd s by cial te	3,275	120	91	429	(605)	(1,332)	340	(213)	
nd s by ial te	2,545	115	19	387	(639)	(255)	158	(690)	
ans ge	6,973	228	(177)	760	(833)	(1,481)	389	(2,098)	
te s	3,633	128	(58)	455	(448)	(399)	345	(1,338)	
d al ons	110	3	2	11	(21)	(2)	12	(26)	
ebt ons	870	21	5	91	(192)	(82)	2	(174)	
and ble res	11,108	197	962	676	(489)	(1,313)	885	(2,188)	
ash ent	**$28,650**	**$821** [1]	**$844** [1]	**$2,810**	**$(3,262)**	**$(4,888)**	**$2,131**	**$(6,801)**	**$2**
ash ent es	**$ (244)**	**$ 12**	**$ (26)**	**$ 170**	**$ (45)**	**$ (6)**	**$ (121)**	**$ 41**	**$**

1. The aggregate amounts include gains/(losses) of approximately $(39) million, $(18) million and $236 million reported in Market making, Other principal transactions and Interest income, respectively, for the three months ended September 2015, and approximately $(10) million, $1.13 billion and $547 million reported in Market making, Other principal transactions and Interest income, respectively, for the nine months ended September 2015.

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Level 3 Cash Instrument Assets and Liabilities at Fair Value

n millions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balanc end o perio
ree Months ded ptember 2014									
n-U.S. vernment and ency igations	$ 53	$ 1	$	$ 87	$ (6)	$ (11)	$	$	$ 12
ans and urities backed commercial l estate	2,508	56	(7)	108	(62)	(165)	877	(125)	3,19
ans and urities backed idential real ate	2,039	37	37	373	(167)	(125)	155	(49)	2,30
nk loans and dge loans	6,280	109	(46)	1,697	(355)	(1,099)	880	(435)	7,03
rporate debt urities	2,192	83	(42)	1,793	(491)	(557)	697	(239)	3,43
te and nicipal igations	169	2	(1)	3	(35)		27	(34)	13

her debt igations	629	5	2	102	(12)	(68)	44	(91)	61
uities and nvertible pentures	10,551	33	358	460	(232)	(215)	705	(922)	10,73
tal cash trument assets	$24,421	$ 326 [1]	$ 301 [1]	$ 4,623	$(1,360)	$(2,240)	$3,385	$(1,895)	$27,56
tal cash trument pilities	$ (197)	$ (6)	$ (20)	$ 76	$ (31)	$ 7	$ (29)	$ 11	$ (18
ne Months ded ptember 2014									
n-U.S. vernment and ency igations	$ 40	$ 4	$ 2	$ 93	$ (19)	$ (4)	$ 8	$	$ 12
ans and urities backed commercial l estate	2,515	112	127	1,318	(373)	(472)	178	(215)	3,19
ans and urities backed idential real ate	1,961	145	148	648	(289)	(329)	232	(216)	2,30
nk loans and dge loans	6,071	450	47	3,667	(696)	(2,590)	375	(293)	7,03
rporate debt urities	2,744	233	22	2,277	(926)	(872)	380	(422)	3,43
te and nicipal igations	257	3	3	31	(112)	(1)		(50)	13
her debt igations	807	45	62	99	(187)	(106)	18	(127)	61
uities and nvertible pentures	8,671	189	1,046	2,097	(873)	(537)	1,236	(1,091)	10,73
	$23,066	$1,181 [1]	$1,457 [1]	$10,230	$(3,475)	$(4,911)	$2,427	$(2,414)	$27,56

tal cash trument assets									
tal cash trument bilities	$ (297)	$ 2		$ 47	$ 171	$ (89)	$ (27)	$ (19)	$ 23	$ (18

1. The aggregate amounts include gains of approximately $27 million, $325 million and $275 million reported in Market making, Other principal transactions and Interest income, respectively, for the three months ended September 2014, and approximately $464 million, $1.40 billion and $771 million reported in Market making, Other principal transactions and Interest income, respectively, for the nine months ended September 2014.

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Notes to Condensed Consolidated Financial Statements

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Level 3 Rollforward Commentary

Three Months Ended September 2015. The net unrealized loss on level 3 cash instruments of $83 million (reflecting $52 million on cash instrument assets and $31 million on cash instrument liabilities) for the three months ended September 2015 primarily reflected losses on bank loans and bridge loans, principally reflecting the impact of wider credit spreads.

Transfers into level 3 during the three months ended September 2015 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the three months ended September 2015 primarily reflected transfers of certain private equity investments and loans and securities backed by residential real estate to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments, and transfers of certain bank loans and bridge loans to level 2 principally due to certain unobservable yield and duration inputs not being significant to the valuation of these instruments.

Nine Months Ended September 2015. The net unrealized gain on level 3 cash instruments of $818 million (reflecting $844 million of gains on cash instrument assets and $26 million of losses on cash instrument liabilities) for the nine months ended September 2015 primarily reflected gains on private equity investments principally driven by strong corporate performance and company-specific events.

Transfers into level 3 during the nine months ended September 2015 primarily reflected transfers of certain private equity investments, bank loans and bridge loans, corporate debt securities and loans and securities backed by commercial real estate from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer transactions in these instruments.

Transfers out of level 3 during the nine months ended September 2015 primarily reflected transfers of certain private equity investments, corporate debt securities and loans and securities backed by residential real estate to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments, and transfers of certain bank loans and bridge loans to level 2 principally due to certain unobservable yield and duration inputs not being significant to the valuation of these instruments.

Three Months Ended September 2014. The net unrealized gain on level 3 cash instruments of $281 million (reflecting $301 million of gains on cash instrument assets and $20 million of losses on cash instrument liabilities) for the three months ended September 2014 reflected gains on private equity investments principally driven by company-specific events and strong corporate performance.

Transfers into level 3 during the three months ended September 2014 primarily reflected transfers of certain bank loans and bridge loans, loans and securities backed by commercial real estate, private equity investments and corporate debt securities from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the three months ended September 2014 primarily reflected transfers of certain private equity investments and bank loans and bridge loans to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Nine Months Ended September 2014. The net unrealized gain on level 3 cash instruments of $1.50 billion (reflecting $1.46 billion on cash instrument assets and $47 million on cash instrument liabilities) for the nine months ended September 2014 primarily consisted of gains on private equity investments principally driven by company-specific events and strong corporate performance.

Transfers into level 3 during the nine months ended September 2014 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the nine months ended September 2014 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

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Investments in Funds That Are Measured at Net

Asset Value Per Share

Cash instruments at fair value include investments in funds that are measured at NAV of the investment fund. The firm uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value. The firm early adopted ASU No. 2015-07 in June 2015 and, as required, disclosures in the paragraphs and tables below are limited to only those investments in funds that are measured at NAV. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation.

The firm s investments in funds measured at NAV primarily consist of investments in firm-sponsored private equity, credit, real estate and hedge funds where the firm co-invests with third-party investors.

Private equity funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, growth investments and distressed investments. Credit funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers. Real estate funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and property. The private equity, credit and real estate funds are primarily closed-end funds in which the firm s investments are generally not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated or distributed.

The firm also invests in hedge funds, primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage. The firm s investments in hedge funds primarily include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be received until the underlying assets are liquidated or distributed.

Many of the funds described above are covered funds as defined by the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Board of Governors of the Federal Reserve System (Federal Reserve Board) extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to December 31, 2013, and indicated that it intends to further extend the conformance period through July 2017. The firm currently expects to be able to exit substantially all such interests in these funds in orderly transactions prior to July 2017, subject to market conditions. However, to the extent that the underlying investments of particular funds are not sold, the firm may be required to sell its interests in such funds. If that occurs, the firm may receive a value for its interests that is less than the then carrying value as there could be a limited secondary market for these investments and the firm may be unable to sell them in orderly transactions.

The firm continues to manage its existing funds, taking into account the conformance period outlined above, and has redeemed $3.18 billion of its interests in hedge funds since March 2012. In order to be compliant with the Volcker Rule, the firm will be required to reduce most of its interests in the funds in the table below by the end of the conformance period.

The tables below present the fair value of the firm s investments in, and unfunded commitments to, funds that are measured at NAV.

	As of September 2015	
$ in millions	**Fair Value of Investments**	**Unfunded Commitments**
Private equity funds	**$5,290**	**$2,068**
Credit funds	**667**	**375**
Hedge funds	**614**	
Real estate funds	**1,325**	**296**
Total	**$7,896**	**$2,739**

	As of December 2014	
$ in millions	Fair Value of Investments	Unfunded Commitments
Private equity funds	$6,307	$2,175
Credit funds	1,008	383
Hedge funds	863	
Real estate funds	1,432	310
Total	$9,610	$2,868

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Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as OTC derivatives. Certain of the firm s OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

Market-Making. As a market maker, the firm enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. In this capacity, the firm typically acts as principal and is consequently required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from its market-making and investing and lending activities in derivative and cash instruments. The firm s holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits, and to manage foreign currency exposure on the net investment in certain non-U.S. operations.

The firm enters into various types of derivatives, including:

Futures and Forwards. Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.

Swaps. Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

Options. Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement (counterparty netting). Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements (cash collateral netting). Derivative assets and liabilities are included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively. Realized and unrealized gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions in Note 4.

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The table below presents the gross fair value and the notional amount of derivative contracts by major product type, the amounts of counterparty and cash collateral netting in the condensed consolidated statements of financial condition, as well as cash and securities collateral posted and received under enforceable credit support agreements that do not meet the criteria for netting under U.S. GAAP.

In the table below:

Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm s exposure.

Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.

Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm s derivative activity and do not represent anticipated losses.

	As of September 2015			As of December 2014		
$ in millions	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						