

Global Balance Sheet

Overview of Repo 105 (FID) / 108 (Equities)

July 2006

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Accounting Theory Behind Repo 105 / 108

◆ Summary of FAS140, "Accounting for Transfers and Servicing of Financial Assets"

The transferor has sold assets if and only if *all of the following conditions* are met:

9 (a) The transferred assets have been isolated from the transferor...

9 (b) Each transferee has the right to pledge or exchange the assets and no condition constrains the transferee

9 (c) The transferor does not maintain effective control over the transferred assets

◆ Repo transactions are normally recorded on the balance sheet as financings. Under certain circumstances we get 'true-sale' treatment we get to treat the repo as a sale.

Legal opinion obtained from
Linklaters (for LBIE)

A repo under a Global Master
Repurchase Agreement
[GMRA] is a 'true-sale'

9 (a) 9 (c)



For tri-party the Euroclear
're-use' option is active

For equity securities we ensure
that voting rights have been
transferred

9 (b)



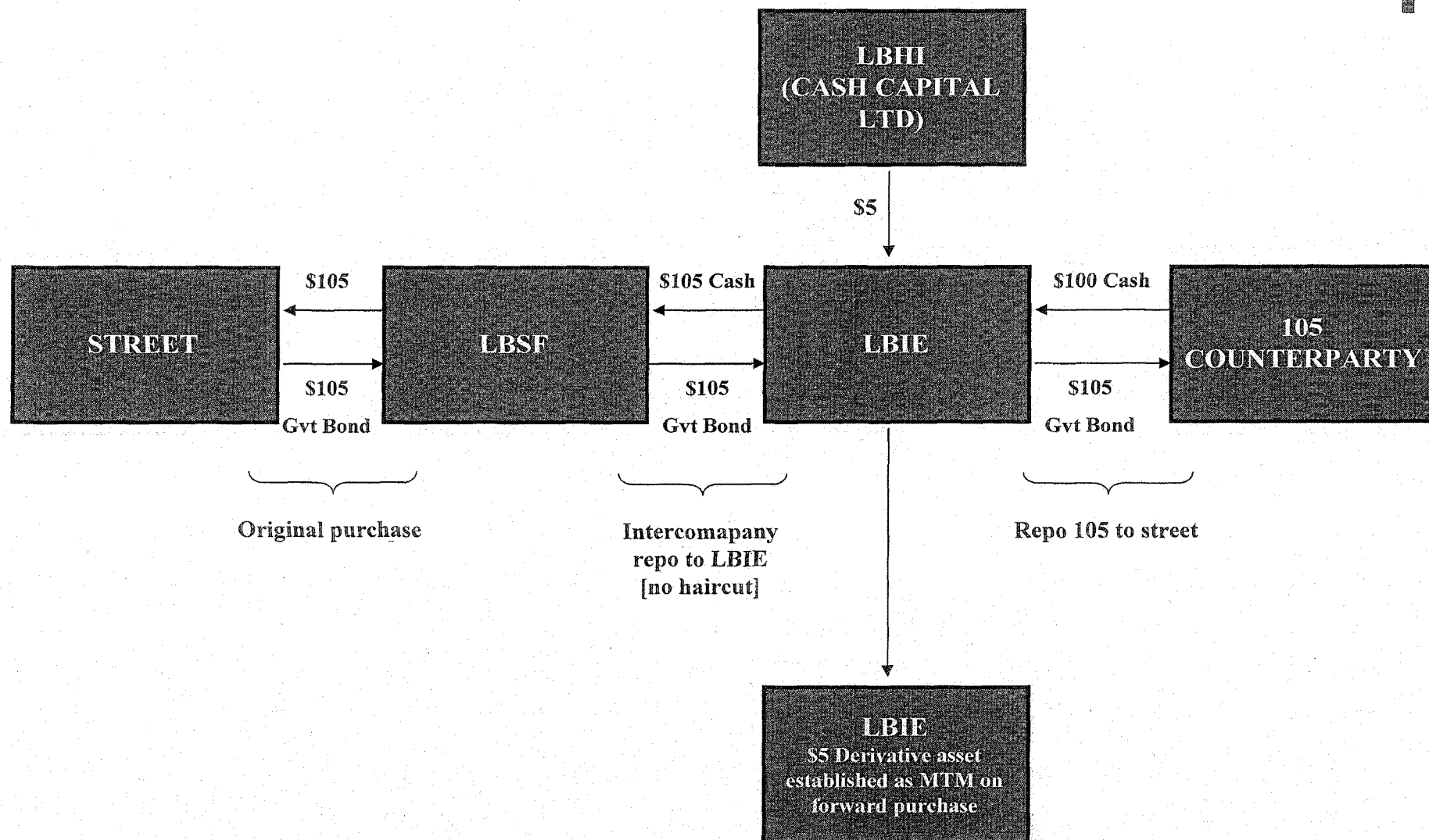
Above normal market haircut
105% for Fixed Income and
108% for Equities

Additional haircut implies
that we have insufficient
cash to repurchase assets
and therefore they are 'sold'

9 (c)



Example Flow Diagram



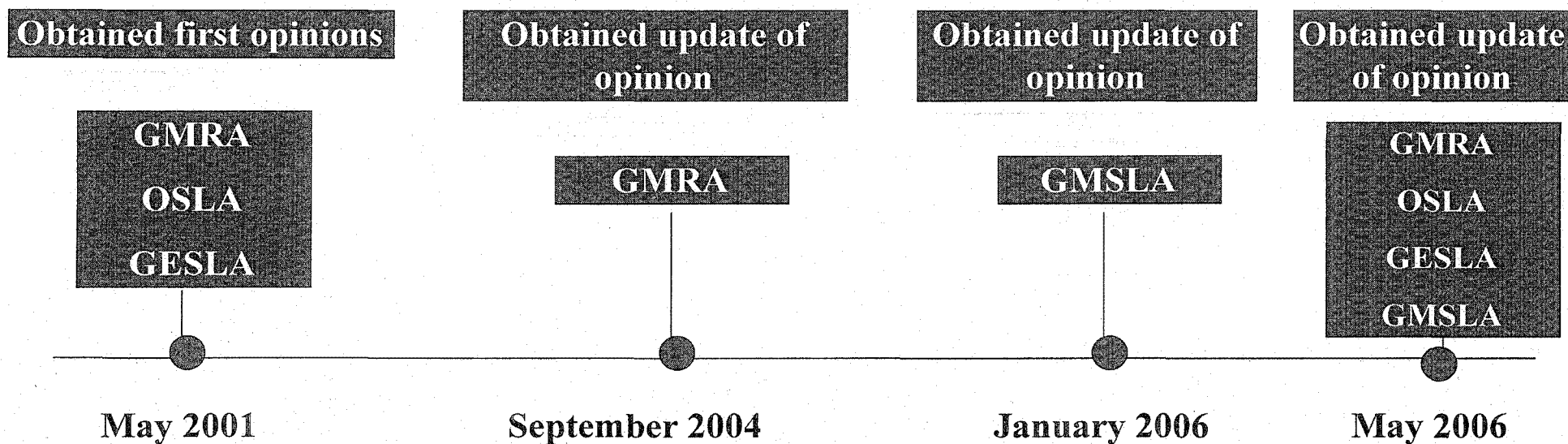
Operating Rules

- **Trades should only be done on readily obtainable securities (Operating procedure requirement, not a GAAP requirement)**
- **Fixed Income securities executed with a haircut of 105% and equity securities of 108%**
- ◆ **Re-use agreements are needed for triparty repo**
- ◆ **For equity securities – Lehman gives up voting rights per agreement**

- ◆ **Repo 105 is capped at \$17B (1 x leverage) [per Chris O'Meara and Ed Grieb]**
- ◆ **Repo 108 is capped at \$5B [per Chris O'Meara and Ed Grieb]**
- ◆ **Repo 105 transactions must be executed on a continual basis and remain in force throughout the month. To meet this requirement, the amount outstanding at any time should be maintained at approximately 80% of the amount at month – end. [per Chris O'Meara and Ed Grieb]**

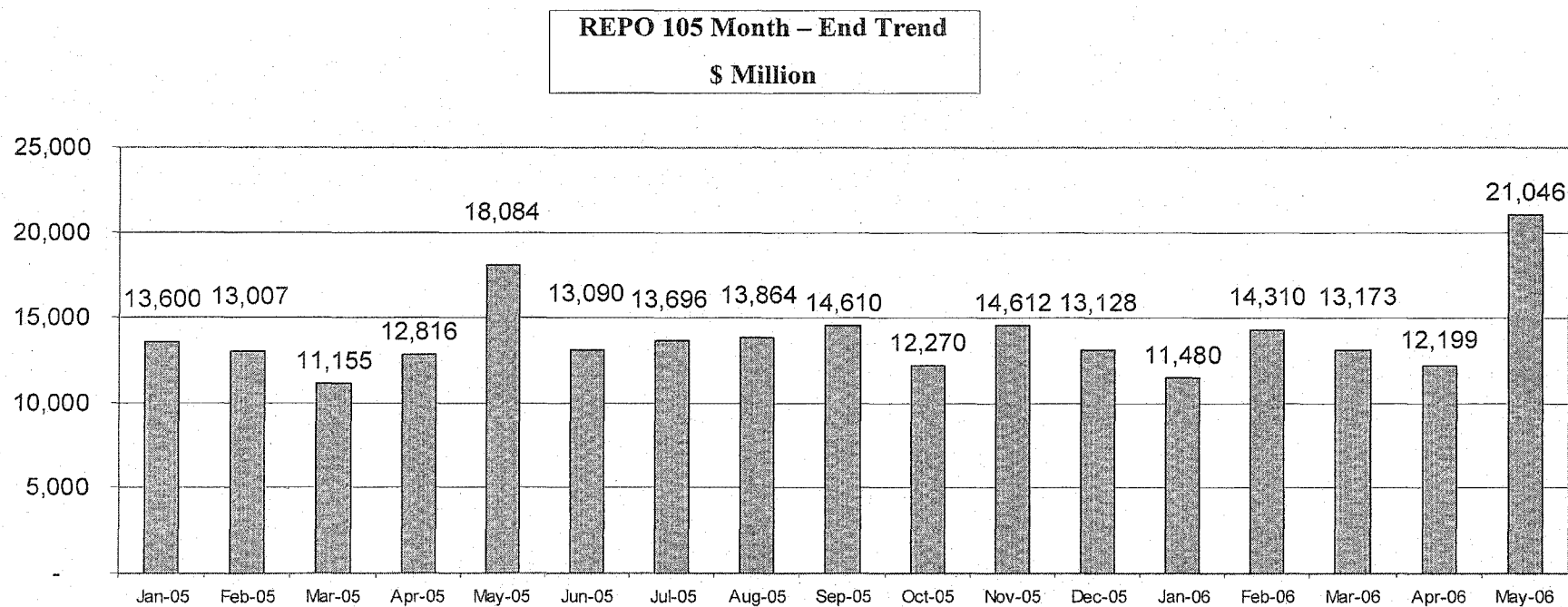
Status of Legal Opinions

- ◆ Agreements are in place with the following organizations:
 - GMRA (Global Master Repurchase Agreement)
 - OSLA (Overseas Securities Lending Agreement) – never used
 - GESLA (Master Gilt Edged Stock Lending Agreement) – never used
 - GMSLA (Global Master Securities Lending Agreement) – never used



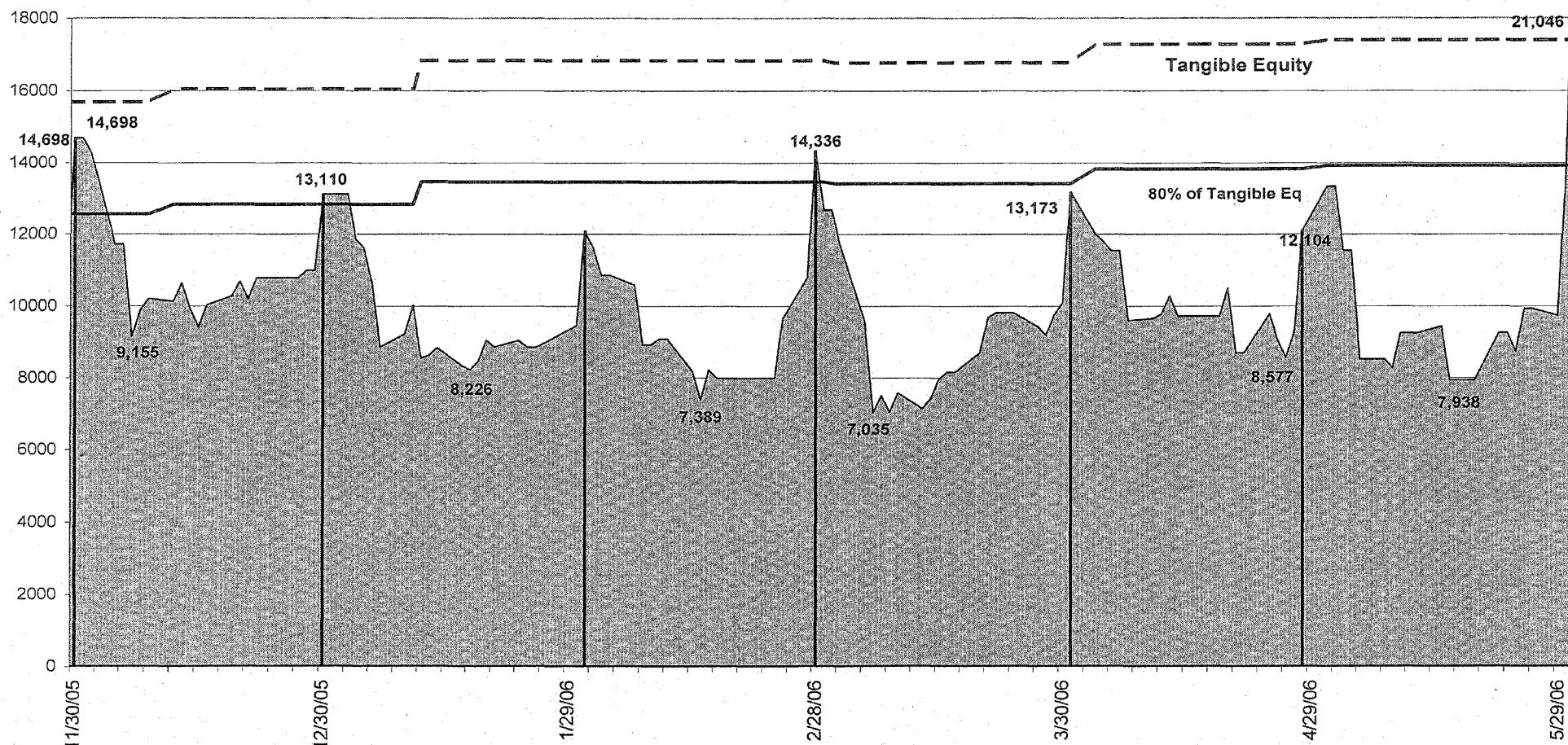
Monthly Trend

- ◆ Total Repo 105 usage reached a record high of \$21B for May quarter end
- ◆ Repo108 for equity securities was introduced as at May 2006 [\$0.6B]



Daily Trend

◆ Total Repo 105 / 108 usage has not been maintained at 80% Tangible equity intra month.



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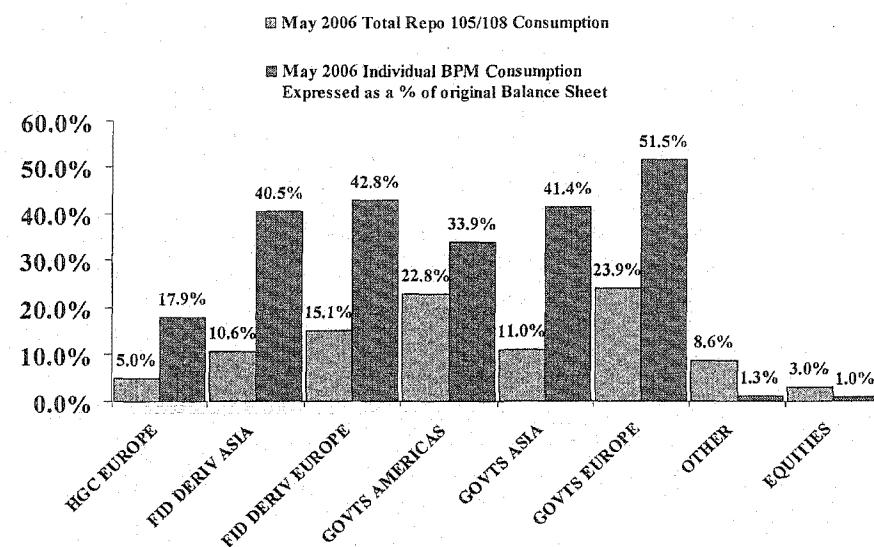
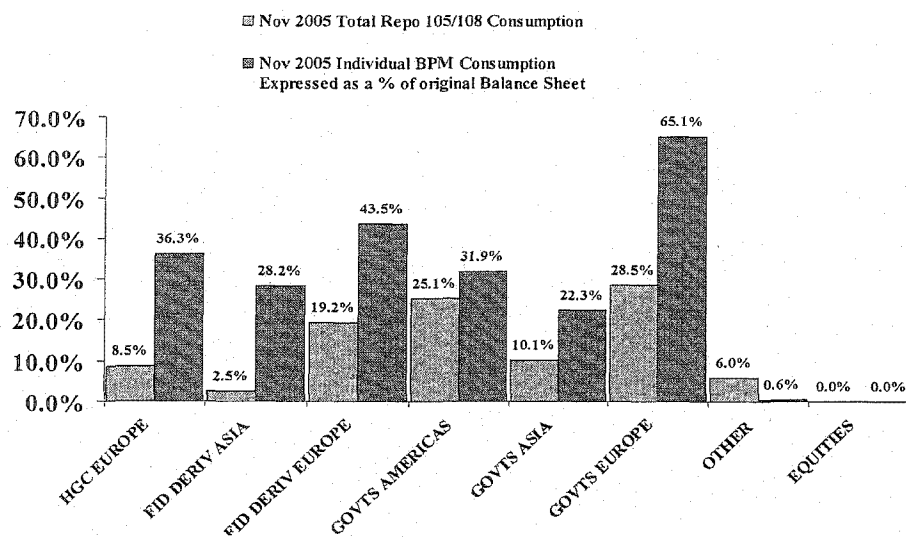
Business Benefit

November 2005

\$14.6B

May 2006

\$21.4B



Who uses Repo 105 ?

Goldman Sachs

x

Merrill Lynch

?

Morgan Stanley

✓

Bear Stearns

✓

JP Morgan Chase

x

Next Steps

- ◆ Review with E&Y (as part of review of Netting Grid)
- ◆ Communicate again the Operating Rule around 80% minimum intra-month level
- ◆ Frequently review legal agreements and opinions to ensure appropriate documents are in place [eg, tri-party re-use agreements]