

From: Turner, Maria <mturner@lehman.com>
Sent: Friday, March 2, 2007 3:46 PM (GMT)
To: Shotton, Paul <paul.shotton@lehman.com>
Cc: Henn, Marc <marc.henn@lehman.com>
Subject: FW: LBIE limit
Attach: Quant risk - Items 4.1, 4.3, 5.2, 6.1 (96.8 KB).msg;summary(1).xls
(458 KB).msg;RE limits (1.39 KB).msg

Paul fyi - suggested LBIE limit for stress scenarios.

> _____
> From: Henn, Marc
> Sent: Friday, March 02, 2007 3:43 PM
> To: Turner, Maria
> Subject: LBIE limit
>
> Hi Maria,
>
>
> Manhua suggested in her email on the follow-up questions from FSA
> (10/2006) that the LBIE RA limit should be 450-500m.
>
> <<RE: CAD II CTE Visit - outstanding actions for Market/Quant risk -
> Items 4.1, 4.3, 5.2, 6.1>>
> Using the same argument as Manhua for COB 27.Feb [LBIE RA usage = 0.5
> * Europe RA usage]:
> A commensurate allocation fo the Europe RA limit to LBIE will result
> in .5 * Europe RA limit = 0.5 * 1.2bn = 600m.
>
>
> Given the stress history over the past year such limit would have
> quite good backtesting history:
> \\T:\MKT_RISK\CADII\StressTesting\stressScenarioHistoryLBIE.xls
> [LBIE stress losses never exceeded limit.] However there might be
> conceptual disconnect between RA as a stress limit (1y, 95% for MR, CR
> and event risk) and the impact of stress scenarios (approx 2 week
> duration of adapted historic periods)
>
> Please note also that:
> * Total reg cap cap LBIE is around 8bn <<summary(1).xls>>
> * Risk appetite limits Europe/Global are 1.2bn/3.2bn. (per
> current LonRisk and RA report)
> * Risk equity usage Europe /Global are 16.2bn/3.6bn for Dec 06.
> (No limits RE limits for global/Europe <<RE: RE limits>>]
>
>
> The link below is for the gap analysis of LB stress testing vs good
> practices identified by field study of FSA [see
> http://www.fsa.gov.uk/pubs/ceo/stress_testing.pdf].

>
> [\\T:\MKT_RISK\CADII\StressTesting\GapAnalysisStressforComprehensiveAp
> proach.xls]
>
>
> One of the most important gaps might be that we do not have an
> aggregated view on all stress losses: Trading book + Banking book
> (with stressed LGD and pd's in prolonged downturn in credit cycle) and
> I am not sure if our stresses have been jointly designed by MR (trad
> book) and CR (banking book) to end up with consistent scenarios. Might
> have to do with the nature of the stress (particularly duration of
> stress period) in market risk and credit risk.
>
> Thanks,
> Marc
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