

**From:** Ballentine, James <jballent@lehman.com>  
**Sent:** Thursday, January 4, 2007 7:56 PM (GMT)  
**To:** Gelband, Michael <mgelband@lehman.com>; Umezaki, Kentaro <komezaki@lehman.com>  
**Subject:** Stress Scenario Observations "Wrap Up"

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#### Stress Scenario Observations

Over a 2 week period in late November I met with Andy Morton, Dave Sherr, Alex Kirk and Kaushik Amin on the topic of the 13 stress scenarios that Risk Management generates daily. Paul Shotton (Global Market Risk Head) joined me in these meetings, as did Madelyn Antoncic (in 3 of the 4 meetings). There were a few other attendees, besides the business heads, as noted below.

Simply put, not one of the business heads depended on the report. Most didn't even know that it was produced daily, and not one looked at it with any frequency.

1. Dave Sherr thought the output was not valid. He brought up the fact that since the information he gets from Risk Mgmt is often wrong (though not necessarily Risk Mgmt's fault), this data must also be incorrect. He was going to follow-up with his folks internally and come back with his own calculations as to what the correct outcome to the various scenarios should be.

2. Kaushik Amin thought it looked intuitively correct (since he was long gamma and would make \$ in just about every scenario). He didn't believe that it was relevant to running a business, however, and wanted to get less strained scenarios - this might be helpful to him. His follow-up was to ask his next level of managers to look at the report to get their feel, and to see what they would like the report to look like so it could help them understand risk better.

3. Alex Kirk thought the report was irrelevant. He thought that immediate shocks to the Credit Business would never amount to losses of such magnitude (GCB lost \$ in just about every scenario, with just many losses very large (>100mm)). He believed that actual losses in '91, '98 and '01 were so little in comparison. He was going to look into it a bit more, and also think about whether there were less stressed scenarios that could be run that would be more helpful to running the business. Fred Orlan and Paul Mitrokostas joined him (with little opinion on the topic).

4.) Andy Morton was unaware that he could even access this information (it is possible that he was not even permissioned). Although a snapshot of this report was included in the daily "LonRisk" file (sent out broadly by Risk Mgmt), upon closer examination this report was a snapshot from September and was not updated. Andy felt the report was not materially helpful in it's current state (though it was new to him),

but thought that a more relevant report could be helpful. He was going to look at the report in more detail with Maria Turner (who was on the call with us).

In sum, I think that this report could be a good tool for the individual businesses if 1.) it was deemed to be more accurate, 2.) it tracked more likely stress scenarios, 3.) could be dynamically altered by the business to account for changing market views/concerns. As it stands, this calculator is very static and would take a lot of effort to be manipulated easily.

Best, -JB