

# Global Balance Sheet

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

*July 2006*

**LEHMAN BROTHERS**

# 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)

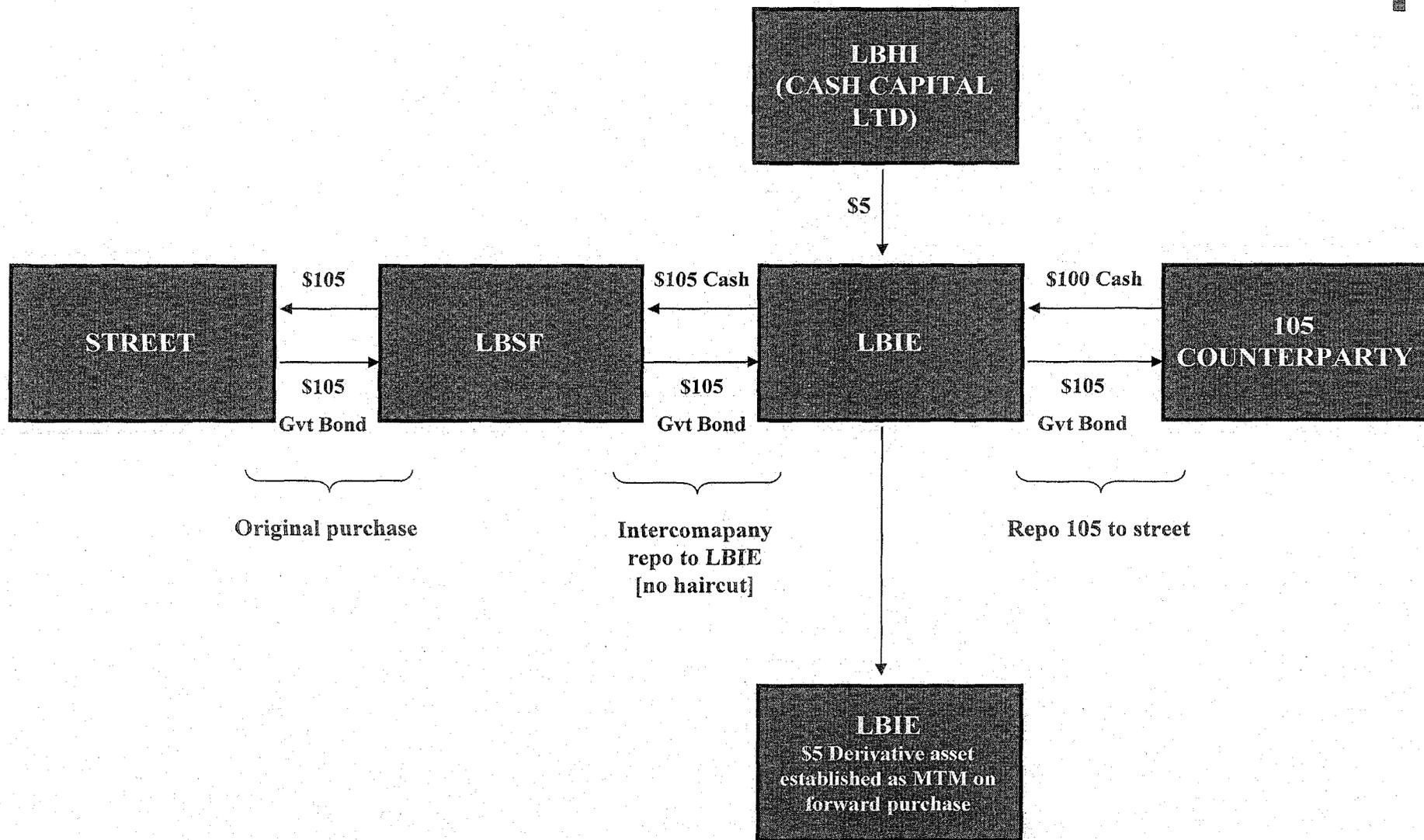


Above normal market haircut  
105% for Fixed Income and  
108% for Equities  
  
Additional haircut implies that we have insufficient cash to repurchase assets and therefore they are ‘sold’

9 (c)



# Example Flow Diagram



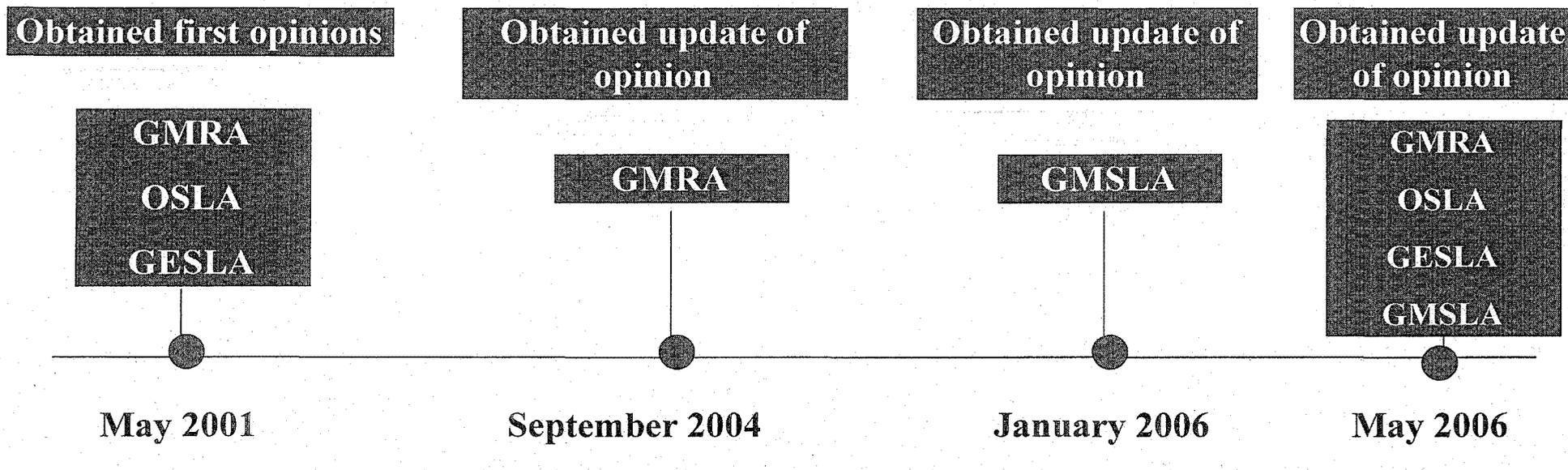
## Operating Rules

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- **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

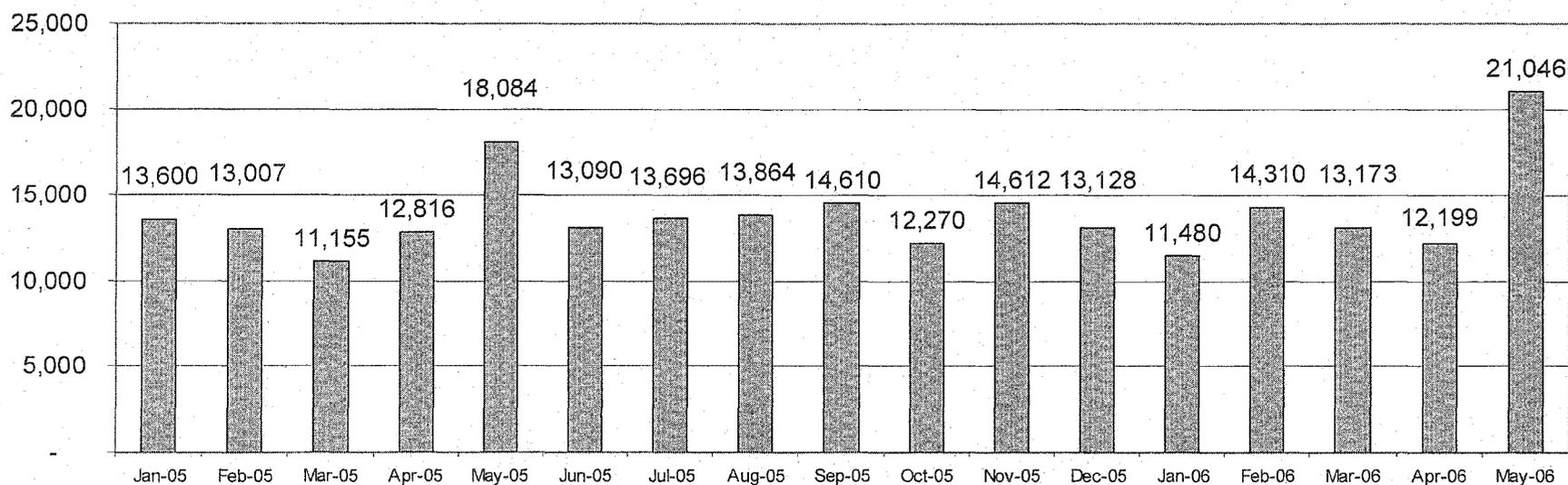
- ◆ Agreements are in place with the following organizations:
  - GMRA (Global Master Repurchase Agreement)
  - OSLA (Overseas Securities Lending Agreement) – never used
  - GESLA (Master Gilt Edged Stock Lending Agreement) – never used
  - GMSLA (Global Master Securities Lending Agreement) – never used



# Monthly Trend

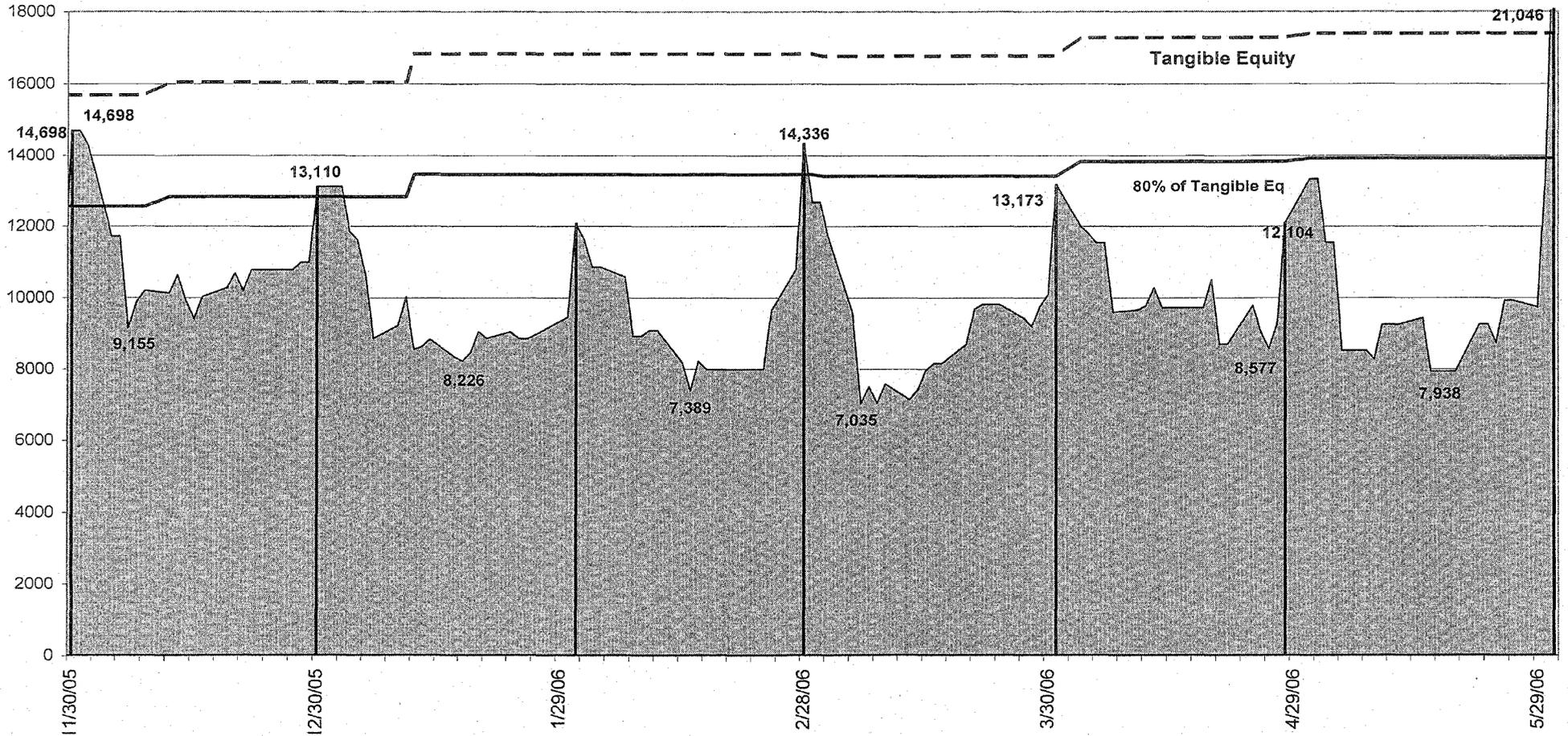
- ◆ Total Repo 105 usage reached a record high of \$21B for May quarter end
- ◆ Repo108 for equity securities was introduced as at May 2006 [\$0.6B]

REPO 105 Month – End Trend  
\$ Million



# Daily Trend

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

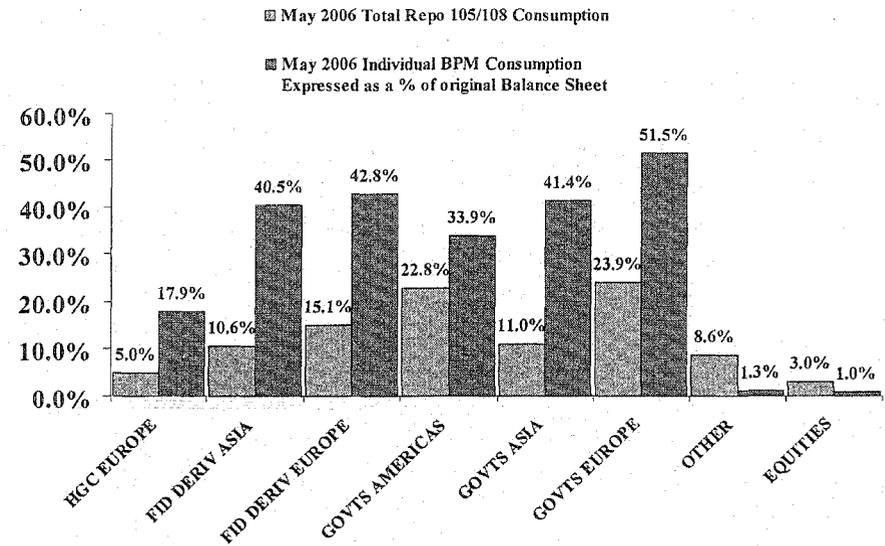
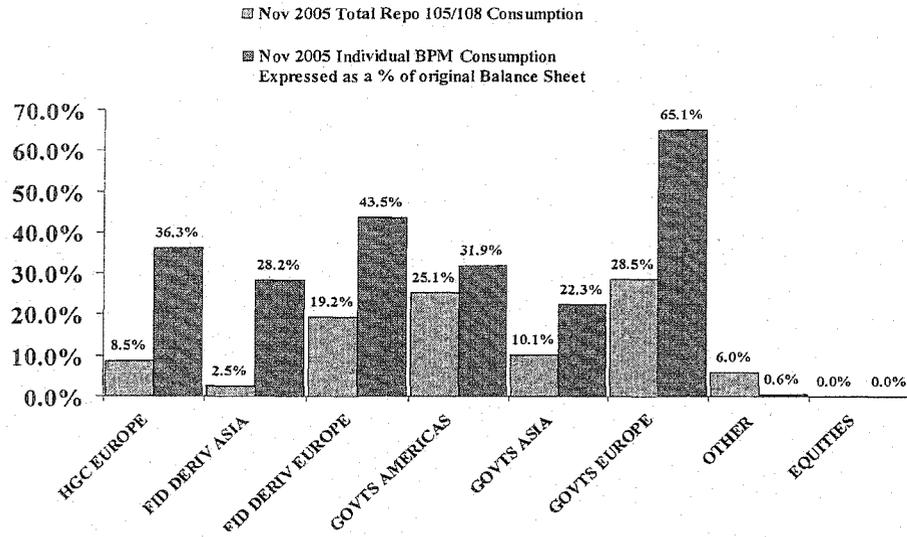


# Business Benefit

**November 2005**  
**\$14.6B**

**May 2006**  
**\$21.4B**

CONFIDENTIAL TREATMENT REQUESTED BY  
LEHMAN BROTHERS HOLDINGS, INC.



## Who uses Repo 105 ?

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**Goldman Sachs** **x**

**Merrill Lynch** **?**

**Morgan Stanley** **✓**

**Bear Stearns** **✓**

**JP Morgan Chase** **x**

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## Next Steps

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- ◆ 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]