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Bcc:

Subject: CSE Inspections.

All,

As some of you are already aware, the SEC's Division of Trading and Markets (formerly known as the Division of Market Regulation) has recently implemented a new CSE holding company inspections program. The intent of the inspections program, which is about to kick-off, is for the SEC to conduct meaningful and focused inspections of the five CSE firms while maintaining close communication and information sharing with members of the division's monitoring team responsible for Lehman.

The new Inspections Program will initially target three projects with an overview/term sheet being provided to the firm covering the scope of each project. Each project will have a team of two people from the SEC, working with the goal of completing the project in a highly targeted manner across the five CSE firms over a span of several months. Each two person team will begin each one of the projects at two CSE firms within the next couple of weeks.

Initial Inspection Project List

1) Commercial Mortgage - Price Verification

The staff will develop an understanding of the price verification process (i.e. independent validation of trader marks by controllers) related to commercial mortgage back securities, commercial whole loans and related derivatives, and verify its implementation for representative transactions.

2) Parent Company Liquidity Pool

The staff will develop an understanding of the instruments intended to be available to the parent without regulatory restriction and the manner in which these are held, and verify the reporting of these positions to management.

3) PDs and LGDs for OTC Counterparts

The staff will develop an understanding of the process by which PDs and LGDs are assigned to over-the-counter derivatives counterparties and transactions for purposes of the Basel computation, and verify its

implementation for representative transactions.

Project Timeline & Teams

The Lehman project plan will involve us participating in the projects in the following order:

Project Order SEC Team Members

Commercial Mortgage - Price Verification Ray Doherty; Tom O'Dougherty; and Jay Sood
PD/LGD for OTC Counterparts Ray Doherty; Yan Gao; and Chris Arnold
Parent Company Liquidity Pool Phil Minnick, Marta Chaffee (formerly GAO); and Radley Macalintal

I will be coordinating with the SEC later this week to have a preliminary discussion around inspection goals, outlines, scope and scheduling and will revert following that meeting with additional outlines and further details. The specific details on the outlines for each of the projects will be directed toward a more targeted group appropriate to each project outline.

If you have any questions please let me know.

Thanks,
Laura