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Sent: Tuesday, September 23, 2008 1:59 AM (GMT)
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Subject: Reserve Formula Calculations
Attach: Res.Driver 091908.xls

All,

The following are the latest results for our Customer and PAIB Reserve calculations as of Sept. 19th:

Customer Requirement \$ 648 million
\$1,121 million possible reduction from Sept. 17th

PAIB Requirement \$ 193 million
\$ 299 million possible reduction

Total Requirement \$ 841 million
\$ 1,420 million possible reduction

The following assumptions or open issues are relevant to the above calculations:

- 1) The MTS computation is not including \$42 billion of overdrafts with Chase. While the internal records reflect a book credit and those of Chase are inconclusive, Dan Fleming and Paolo have represented that these amounts should represent secure financing and are probably not an overdraft with the bank.(overdrafts are a formula credit item)
- 2) Non Broker Dealer Affiliates balances of \$400 million credit have been included in this computation. SEC/ FINRA staff has ruled that this item should be reserved.
- 3) Commodity bank account balances that were overdrawn for \$457 million were not included in the customer calculation. The SEC has deemed Forex transactions with Inter Dealer banks to be exempt from the computation. The assumption would then be that related bank accounts overdrawn could also be excluded.

Senior staff of both the SEC and FINRA have stated that the Firm can not withdraw any funds/securities from the Reserve Accounts without their staff reviewing the calculation and their approval. Other than the three issues outlined above, the continued resolution of immaterial breaks and money differences should mitigate the Reserve Requirements. I'm attaching the Formula as computed and will keep this Group apprised of developments as the calculation is finalized and then reviewed with the Regulators. Please call me with any questions. 3-6787 Regards, Bill

<<Res.Driver 091908.xls>>