# Single Transaction Limit Policy

Proposed Improvements

**Fixed Income Business Strategy**

September 2007

## LEHMAN BROTHERS

# Single Transaction Limit

## Current Policy Highlights

- Single Exposure Max Quarterly Loss at $250mm

- Scenario based stress matrix based extreme 99.5% percentile tail risk incorporating systemic risk and default risk

- Major factors contributing to risk calculation: Company's debt rating, capital structure of the transaction, time to closing, business MAC and market MAC, flex and put bond

- Maximum notional per transaction capped at 1.8bln for unsecured and 3.0bln secured

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### Policy Weaknesses

- Has been perceived by bankers to be too restrictive

- Because there have been many exceptions it has been treated as more of a guideline than a policy

- STL hasn't been included in the bankers memo and so it hasn't been contemplated in the commitment committee process

- Among the YTD transactions, there are 24 transactions which are over the recommended STL by a total of almost $10bln

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## Summary Improvements

- Current limits will be increased slightly to $300mm in addition to softening risk factors: net effect will be halving the amount of risk projected in a transaction. As a result, the risk factors are in line systemic market movement in the 98 and 02 scenarios

- Back-testing of improved risk factors has been tied-out between Risk Mgmt and the High Yield Business

- Categories for closing transaction needs to contemplate more granular  closings: <2mos, 2-6mos, >6mos

- Stress scenario will be attached to bankers memo going forward with an explicit policy recommendation

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