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**Sent:** Monday, September 1, 2008 12:04 PM (GMT)  
**To:** O'Meara, Chris M (NY) [comeara@lehman.com]  
**Subject:** Q3 prep

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Chris - will tone this down before sending to Paul S., but wanted to provide you with some initial thinking to the questions Bart posed at the start of the weekend.

What is your exposure to default by the monolines?  
To be filled in.

How confident are you in your risk management going forward given Q2 and Q3?

We have the utmost confidence in our Global Risk Management Division led by Chris O'Meara. Chris and his team have the full faith and support of Bart McDade, the Firm's senior business leaders and the Firm's Executive Committee. With his 14 years at the Firm, Chris has intimate knowledge and expertise of the Firm's Finance, Treasury and Risk Management functions. Chris' global team possesses extensive risk management expertise and experience and is especially well qualified to carryout independent and effective risk management oversight on behalf of Lehman shareholders, employees, debt holders and other external constituents.

What changes are you making in risk management based on market environment and recent hedging inefficiencies?

Back-story to question

Governance - whatever risk governance process we had in place was ultimately not effective in protecting the Firm.

Risk Appetite - Risk Appetite measures were not effective in establishing clear enough warning signals that the Firm was taking on too much risk relative to capital.

Risk Management function - the experience and expertise were there. The function lacked sufficient authority within the Firm. Decision-making was dominated by the business. In addition, the Executive Committee lacked sufficient counter weight to challenge the business' aggressive and optimistic views and analysis.

Corporate Departments - There are limited incentives in the Firm to achieve Operational excellence. The business is given too much leeway to do things their way without adequate consideration to downstream complexity and cost.

So what do we do differently or what are we doing differently?

Governance - new risk body chaired by Bart McDade. Members Chris O'Meara and senior business leaders. Mandate - business bears ultimate accountability. Risk can table any agenda item.

Risk Management function - vesting Chris O'Meara and his team with greater authority over risk taking activities of the Firm. Whether it's a transaction, limit, or concentrated position, Risk Management will have absolute authority.

Risk -  
Organization - changes?

Risk Appetite - An overhaul of our quantitative and qualitative assessment of risk is underway. Less emphasis on VaR, more emphasis on return on capital, scenario and stress testing and what-if analysis..

Corporate Functions - Establishment of Corporate Operating Committee

Chair - tbd

Reporting line -- tbd

Membership -- tbd

Mandate - review our operating processes to ensure working optimally and with adequate safeguards and control. Seeking operating excellence in our Corporate functions.

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