

From: Danis, Michelle <DanisM@SEC.GOV>
Sent: Friday, April 21, 2006 6:00 PM (GMT)
To: Oman, David [London] <david.oman@lehman.com>; McGarry, Patrick <PMcGarry@lehman.com>
Cc: Antoncic, Madelyn <mantonci@lehman.com>; Bettinger, Lori <BETTINGERL@SEC.GOV>; Eichner, Matthew <EICHNERM@SEC.GOV>; Cleland, Robert W. <ClelandR@SEC.GOV>; Vecchio, Laura M <lvecchio@lehman.com>; Stucchio, Anthony <astucchi@lehman.com>; Grieb, Edward <egrieb@lehman.com>
Subject: SEC-CSE monthly meeting
Attach: Final CSE Report - market and credit.pdf.zip

David and Patrick,

Many thanks for your helpful comments in yesterday's meeting, and David, it was nice meeting you in person.

As you know, our group was involved in evaluating Lehman's application to become a Consolidated Supervised Entity last summer. I led a team evaluating the credit risk function, Lori Bettinger led a team evaluating market risk, and Bob Cleland led a team evaluating liquidity and funding issues. I thought it would be helpful to send along a copy of the CSE report that Lori and I jointly prepared on the market and credit risk function in order to give you a sense of our level of understanding of Lehman's businesses and independent control functions. Credit risk specifically is discussed beginning on page 32.) The document also lays out our approach to consolidated supervision, and consequently our goals for our monthly meetings with you. Our areas of focus, during the initial CSE review and ongoing, include business unit risk taking and risk controls; aggregate risk metrics and the independent risk control function; and control processes supporting risk management.

At your peer firms where we have been interacting with a core group of risk managers for some time, we have found that our monthly discussions have evolved to include topics such as:

- (1) Specific transactions or positions generating outsized amounts of risk
- (2) Specific transactions or positions generating unusual types of risk
- (3) Changes in tools used to generate risk metrics, such as changes in ratings or MPE methodologies
- (4) Changes in risk controls, such as the limit structure
- (5) In-depth updates of specific businesses or types of counterparties generating large amounts of credit risk, such as hedge funds or energy counterparties

- (6) Market trends that impact Lehman's credit risk profile

This list is not meant to be exhaustive, but rather I hope to give you a flavor of the types of items we would find useful in our continued monitoring of Lehman's risk and internal processes. We are very open to hearing from you how best to represent risk, in the form of a written risk package, to us each month. Our desire is to align the monthly package you give to us with risk packages that you have given to senior management. We definitely would like for the monthly packages to pass the use test and not to create additional work for you.

Please do not hesitate to contact me with any questions or comments. =m looking forward to our ongoing dialogue in the coming months.

Michelle

Michelle A. Danis, Ph.D.
Financial Economist
Division of Market Regulation
100 F Street NE
Washington, DC 20549
202-551-5534
DanisM@sec.gov