

From: Breakstone, Brian [brian.breakstone@lehman.com]
Sent: Thursday, February 7, 2008 4:28 PM (GMT)
To: Pearn, Francis J [francis.pearn@lehman.com]; Bernard, Clement [clement.bernard@lehman.com]
Subject: FW: Proforma impact of Trading book methodology changes

FYI

From: Yu, Anna
Sent: Wednesday, February 06, 2008 5:38 PM
To: Fitzgibbon, Jennifer; Breakstone, Brian
Subject: FW: Proforma impact of Trading book methodology changes

Jennifer/Brian - fyi

From: Yu, Anna
Sent: Wednesday, February 06, 2008 3:59 PM
To: Kelly, Martin; Tonucci, Paolo
Cc: Spahr, Eric; Stucchio, Anthony; Rossi, Stephen F; Lax, Stephen; Axelrod, Ari
Subject: Proforma impact of Trading book methodology changes

Martin/Paolo

Risk Mgmt will be presenting to SEC the proforma results of the changes to the various methodologies (JTD, Principal investments, Securitizations, etc) tomorrow. Based on the parallel run results (Oct to Dec), the additional pickup in the capital ratios is **~2.1% - pls see chart below**. This represents net savings of roughly \$4 bn in capital charges on average every month.



SEC has indicated that they are considering approving the advance application of these methodologies to 3 CSE firms, and are going to be comparing the resulting impacts of all 3 before making the decision. The timing of the application is also uncertain at this point - we suspect it will be effective starting **Mar 31, 2008** month end (which should relieve some pressure on the capital ratios sooner than Q2, when we disclose).

Another methodology change in the horizon is the AMA approach for Operational Risk, which is not expected to be approved until Q3 (and probably effective Q4). The SEC has indicated that they are thinking of applying a **floor of \$2 bn** in charges for Ops Risk (we are currently charging \$2.6 bn, and pro-forma results indicate a model charge of \$1.5 bn). Therefore, the savings impact are expected to be an additional **~30 bps** increase to the Total capital ratio.

Will keep you posted on the developments.

rgds,
Anna Yu
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