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Sent: Tuesday, April 22, 2008 2:16 PM (GMT)
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Subject: New Balance Sheet Targets

> Guys
>
> We have new balance sheet targets for quarter end. While gross
> balance sheet has not been a priority in the past, we will be required
> to meet both net and gross targets. We will need to be focused very
> early in the process in order to meet these targets. Our gross
> numbers are mostly comprised of shorts. Since we receive a fairly
> significant benefit via repo 105 for our longs, the short positions
> will need to be significantly reduced in order to meet our targets.
> Currently, UST shorts make up a big component of these shorts and it
> is unlikely we will get any netting benefit from these positions.
>
> As we have no room for error this quarter end, the businesses will
> have a mid-month (May 16) target for net balance sheet which will be
> 1.25 times the quarter end target. For example, Asia net target for
> May 16 will be \$7.5 billion. We will likely be moving towards month
> end targets after the May quarter end.
>
> We also need to have a coordinated approach relating to repo 105
> allocation. Our assumption should be that the amount available will
> be significantly reduced over the coming months. Given this likely
> reduction, we should utilize the facility for truly illiquid positions
> (short duration and liquid government bonds should not be allocated).
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>
We need to drill down at the business level to make certain we reach our objectives. Product control can help provide ledger specific details if you guys need it.

Each business will be subject to a \$3mm per billion of balance sheet overage charge.

> Region	Gross	Net	Gross Limit	Net Limit
> Americas	113.3	52.6	74	26
> Europe	68.5	32.9	22.5	10
> Asia	20.9	15.5	13.5	6
> Total	202.8	101	110	42

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>
> CHANGES TO NET BALANCE SHEET:
> \$1 BILLION REDUCTION IN ASIA
> \$2 BILLION REDUCTION EUROPE
> \$3 BILLION RE-ALLOCATION TO US (PT BUSINESS)
>
> CHANGES TO GROSS BALANCE SHEET:

- > CORE BUSINESS GROSS 2.25x NET
- > US GROSS 2.84 x NET (TO ALLOW FOR LM PROP ALLOCATION)
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