

From: [Arthur Angulo](#)
To: [Thomas Baxter](#); [Joyce Hansen](#); [Jonathan Polk](#); [Chris McCurdy](#); [Patrick M Parkinson](#); [Gerard Dages](#); [Joseph Sommer](#)
Cc: [Theodore Lubke](#)
Subject: Fw: memo re: Lehman's inter-company default scenario
Date: 09/13/2008 08:24 PM
Attachments: [leh-def-scenario-memo-20080913.doc](#)
[FundingFacilities.xls](#)

haven't opened docs yet ...

----- Forwarded by Arthur Angulo/NY/FRS on 09/13/2008 08:19 PM -----

**Christopher T
Tsuboi/NY/FRS**

09/13/2008 08:01 PM

To [Alejandro LaTorre/NY/FRS@FRS](#), [Alexa Philo/NY/FRS@FRS](#), [Anthony Cirillo/NY/FRS@FRS](#), [Arthur Angulo/NY/FRS@FRS](#), [Bard Stermasi/NY/FRS@FRS](#), [Brian Peters/NY/FRS@FRS](#), [Caroline Frawley/NY/FRS@FRS](#), [Catherine Voigts/NY/FRS@FRS](#), [Christopher Calabia/NY/FRS@FRS](#), [Clinton Lively/NY/FRS@FRS](#), [Daniel Muccia/NY/FRS@FRS](#), [Dennis Herbst/NY/FRS@FRS](#), [Dianne Dobbeck/NY/FRS@FRS](#), [Jan Voigts/NY/FRS@FRS](#), [Jeanmarie Davis/NY/FRS@FRS](#), [Jim Mahoney/NY/FRS@FRS](#), [John Ricketti/NY/FRS@FRS](#), [Jonathan Polk/NY/FRS@FRS](#), [Kyle Grieser/NY/FRS@FRS](#), [Lily Tham/NY/FRS@FRS](#), [Paul Whycott/NY/FRS@FRS](#), [Robert Galletta/NY/FRS@FRS](#), [Roger Graham/NY/FRS@FRS](#), [Sandra Rosario/NY/FRS@FRS](#), [Sarah Dahlgren/NY/FRS@FRS](#), [Steven J Manzari/NY/FRS@FRS](#), [Steven Mirsky/NY/FRS@FRS](#), [Theodore Lubke/NY/FRS@FRS](#), [Wendy Ng/NY/FRS@FRS](#), [William BRODOWS/NY/FRS@FRS](#), [William Hallacy/NY/FRS@FRS](#), [Zahra El-Mekkawy/NY/FRS@FRS](#)

cc

Subject memo re: Lehman's inter-company default scenario

RESTRICTED FR

Hello,

The attached memo is what Lehman's internal counsel described as their view on how a default for their B/D units may trigger a cascade of defaults through to the subs which have large OTC deriv books. Also attached is a spreadsheet showing the current status of the holding company's credit facilities (both syndicated and bilateral).

Let us know any questions..thanks!
chris



leh-def-scenario-memo-20080913.doc FundingFacilities.xls

Christopher Tsuboi
Federal Reserve Bank of New York
Bank Supervision/Operational Risk
212-720-2872
christopher.tsuboi@ny.frb.org

ATTACHMENTS RESTRICTED FR

Date: 13 September 2008

Subject: Lehman cross default scenarios as viewed by Lehman.

- This memo describes the opinion of Lehman’s internal legal counsel on the probable course of events should a broker-dealer subsidiary of LBHI (the holding company) default on its obligations, with focus on a B/D default on its overnight funding obligations.
- The majority of securities financing is done out of the LBI (US B/D) and LBIE (UK B/D) subsidiaries. In these entities, repos are transacted under the standard BMA form of master purchase agreement (US) or GMRA agreements (UK). According to Lehman, these agreements are considered “standalone”: that is, contractually speaking, a default by LBHI on its credit facilities does not necessarily trigger a default for the LBI subsidiary on its repo lines. In practice, it may become difficult to roll overnight repo in this event. Lehman stated that most of the immediate rollover risk resides with LBI, since LBIE transacts more term repo.
- LBIE has a corporate guarantee from LBHI, i.e. all LBIE obligations are ultimately obligations of LBHI.
- LBI does not have a corporate guarantee from LBHI, but because it is a “significant subsidiary” of LBHI, under its various **credit facility agreements** a shortfall of USD100M or more in respect of LBI and its overnight repo counterparties is considered an event of default for LBHI, and this in turn would trigger defaults at these credit facilities (both syndicated and bilateral). A list (current as of 9/12) of these credit facilities is in the accompanying spreadsheet, including information on capacity, utilization status and roll dates.
- Attachment A is a list of LBHI subsidiaries, grouped into those with guarantees by the holding company (LBHI) and those without.
- According to Lehman, a default in LBHI would trigger defaults in the other credit facilities, including the bilateral facilities, most of whose agreements are based on that of the main JPMC syndicated facility. The JPMC agreement is available and has been sent to Legal for review. The triggered defaults at these facilities would make them come due immediately.
- LBHI is named as a “Credit Support Provider” in the cross-default provisions in most of the **ISDA Master Agreements** for a number of subsidiaries with large OTC derivatives books. Thus a default at LBHI (passing a threshold of around USD100M) would trigger these provisions (q.v. 1992 ISDA Master Agreement section 5(a)(vi)). Most (roughly 80%) of the ISDA Master Agreements at these subsidiaries involve unmodified cross default provisions, while the rest modify the language to enable cross acceleration provisions, which requires positive acceleration of the debt by the creditor (a higher threshold for the trigger).
- The subsidiaries with the largest derivatives books are LBSF and LBIE. We still need to analyze data to understand the relative sizes of these books. Other subsidiaries with derivatives books are listed in Attachment A with the basic make-up of the books. In addition, Lehman is preparing more cross default and termination event data related to ISDA Master Agreements for the subsidiaries.
- One other significant trigger according to Lehman (outside the scenario described in this memo) would be termination events resulting from a ratings downgrade, in particular a downgrade to below investment grade (below BBB-).