

**STATEMENT OF MATTHEW LEE,
FORMER SENIOR VICE PRESIDENT, LEHMAN BROTHERS
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
HEARING REGARDING “PUBLIC POLICY ISSUES RAISED BY THE REPORT
OF THE LEHMAN BANKRUPTCY EXAMINER”**

APRIL 20, 2010

Chairman Frank, Ranking Member Bachus, and Members of the Committee:

Thank you for the Committee’s invitation to appear here today. As you may know, I was employed by Lehman Brothers for 14 years, ultimately as Senior Vice President, Global Financial Control. In 2008, I identified several accounting and corporate governance issues that caused me considerable and growing concern both from an accounting and a corporate governance perspective. On multiple occasions, I attempted to bring these issues to the attention of Lehman Brothers’ executive management, and on one occasion to the attention of Lehman’s outside auditors. Within days of first raising issues, I was terminated.

I was born, raised and educated in the United Kingdom, and I am an adopted citizen of the United States. I received a Bachelor of Commerce degree (1981), and a Master of Arts (Honors) degree in Economics (1976), both from the University of Edinburgh, Scotland. In the field of accounting, I am a member of the Institute of Chartered Accountants of Scotland, an Associate of the Institute of Cost and Management Accountants, and a Certified Public Accountant registered in the State of New York.

In 1977, I joined the London office of Arthur Young, McClelland, Moores & Co as an auditor. In 1981, I transferred to the New York office of Arthur Young & Company, which later

became Ernst & Young. I specialized in auditing financial services clients and I was eventually promoted to the position of Principal, as a global technical expert in Financing Products, International Securities and Trust Banking. In that capacity, I was asked to identify potential client accounting control issues, bring them to the attention of client management, and to assist our clients in resolving them.

In 1994, Lehman Brothers recruited me to work as the Global Product Controller of its Equity Finance Division. I learned that Lehman had sought me out based on my reputation as an auditor with a keen ability to identify and resolve complex internal accounting control issues. In 2005, I was promoted to Senior Vice President, Global Financial Control, head of consolidated legal entities and consolidated and unconsolidated daily and monthly balance sheets. In that capacity, I oversaw Lehman's global balance sheet production, and supervised approximately 150 employees worldwide. During the last year of my employment, I reported directly to Martin Kelly, Managing Director & Global Financial Controller.

During my fourteen years working at Lehman, I periodically identified problematic issues with Lehman's internal accounting control practices, including the validity of the assets and liabilities represented on Lehman's balance sheets. I typically reported my findings to management orally, and in my experience my concerns were usually addressed and appropriately resolved. Over the course of my employment, I received positive performance evaluations, as well as promotion in title and responsibilities, and I was compensated commensurate with my positions and duties.

During late 2007 and early 2008, several accounting control issues (some longstanding, others new) that I believed were material to Lehman's financial condition, were causing me

increasing concern, including Lehman's use of so-called "Repo 105" transactions to temporarily remove debt and assets from its balance sheet, evidently to coincide with public financial reporting dates. These issues were discussed on numerous occasions among my peers, most of whom shared my concerns; these discussions often included my direct supervisor, Martin Kelly. However, I became increasingly concerned that management was not responding to these concerns and that indeed the problems were getting worse.

On May 16, 2008, I sent a letter raising certain of these accounting and balance sheet issues – essentially, those which were most directly within my scope of responsibility -- to the senior financial management of Lehman, which included the Global Financial Controller (Martin Kelly), the Head of Capital Markets Product Control (Gerard Reilly), and the Chief Financial Officer (Erin Callan). Because I felt that these issues created operational risk for Lehman, I also sent the letter to the Chief Risk Officer (Christopher J. O'Meara). Subsequently, I prepared another writing addressing additional accounting-control issues of significant concern existing outside my immediate scope of responsibility, including the "Repo 105" transactions. That communication was sent to Jack Johnson, a Managing Director in Lehman corporate compliance. In both communications, I outlined what I believed to be the critical issues, as was my obligation as an employee of Lehman and consistent with Lehman's Code of Ethics.

Shortly after sending my first letter, I was interviewed by Joseph Polizzotto, Lehman's General Counsel, and Elizabeth Rudofker, Head of Corporate Audit. On May 22, 2008, the day after that interview, I was terminated without warning. Approximately two weeks after my termination, notably *after* I had communicated additional concerns including Repo 105, I was interviewed by Ernst & Young auditors. I later learned that in July 2008, a detailed presentation regarding issues I had raised was made to the Audit Committee of Lehman's Board of Directors,

(Examiner's Report at p. 960) but I was not informed of the presentation nor asked to participate. Subsequently, associates of Mr. Valukas, Lehman's bankruptcy examiner, interviewed me. I cooperated fully with each and every one of these inquiries, both internal and external.

Based on what I observed during my employment, I believe that there were serious, material accounting control and corporate governance issues at Lehman. I am here today to answer any questions that the committee may have regarding those issues.