**Lehman Brothers and the Global Financial Crisis: Impacts on Multinational Corporations**

Didem B. Aykurt

Colorado State University Global

FIN575: International Financial Management

Dr. Mustafa Sayim

September 8, 2024

Table of Contents

[Abstract 3](#_Toc175658805)

[Introduction 3](#_Toc175658806)

[The Lehman Brothers Collapse and the Global Financial Crisis 4](#_Toc175658807)

[Multiple Questions on Global Credit Crisis: An Overview 5](#_Toc175658808)

[Was the MNC's revenue reduced due to weak global economic conditions? 5](#_Toc175658809)

[Was it adversely affected by how the international credit crisis affected exchange rates? 6](#_Toc175658810)

[Was it adversely affected because of problems in obtaining credit? 7](#_Toc175658811)

[Was it adversely affected because of the kind of international financial investments it had? 7](#_Toc175658812)

[Was it directly or indirectly affected by transaction, economic, translation, and country risk exposures? 8](#_Toc175658813)

[Has the MNC recovered from the international crisis? 9](#_Toc175658814)

[What is the future outlook of the MNC's financial performance? 9](#_Toc175658815)

[Lehman Brothers and the Consequences of the Credit Crisis 9](#_Toc175658816)

[Revenue: 9](#_Toc175658817)

[Exchange rate effects: 10](#_Toc175658818)

[Credit access: 10](#_Toc175658819)

[International financial investment: 11](#_Toc175658820)

[Transaction, economic, translation, and country risk exposures: 11](#_Toc175658821)

[Evaluation of Lehman Brothers’ Financial Health and Performance 12](#_Toc175658822)

[Conclusion 13](#_Toc175658823)

[References 15](#_Toc175658824)

[Exhibit 17](#_Toc175658825)

# Abstract

The global financial crisis of 2007-2008 profoundly affected multinational companies (MNCs), with Lehman Brothers as a pivotal example. This analysis explores Lehman’s economic performance before and after the crisis, highlighting the severe impact of the credit crunch, liquidity issues, and exposure to complex financial instruments. Lehman’s bankruptcy in September 2008 marked the largest in U.S. history, triggering widespread market panic and regulatory reforms. Critical lessons from Lehman’s collapse include the importance of rigorous risk assessment, liquidity management, effective corporate governance, and systemic risk awareness. Post-crisis, investment banks adapted by strengthening capital positions, reducing reliance on short-term funding, and enhancing risk models. Lehman’s liquidation process, concluded in 2022, returned over $115 billion to customers and creditors, demonstrating the effectiveness of the Securities Investor Protection Act (SIPA) framework. However, Lehman did not recover, and its downfall continues to influence financial practices globally.

The future outlook emphasizes the need for robust risk management, transparency, and global cooperation to prevent similar crises. Central banks’ interventions during the crisis, including liquidity provision and quantitative easing, were crucial in stabilizing markets. In conclusion, Lehman Brothers’ experience underscores the critical importance of prudent financial practices and regulatory oversight in maintaining market stability.

# Introduction

From 2007 to 2009, a global financial crisis occurred, triggered by the collapse of key financial institutions. The crisis began in the U.S. due to a housing bubble and spread worldwide through interconnected financial systems, underlining the urgent need for global cooperation and robust risk management. Financial institutions had overestimated their ability to manage risk and became heavily invested in risky assets. The crisis led to the Great Recession, the worst economic downturn since the Great Depression. Economies worldwide slowed down, and international trade declined. Several major financial institutions failed or were on the brink of failure, leading to government bailouts to prevent a total collapse of the financial system. There were sharp declines in stock prices globally, which eroded wealth and reduced consumer and business confidence. Banks tightened lending, making it harder for businesses and consumers to obtain loans. This led to reduced investments and spending. The housing market suffered significantly, with widespread foreclosures and evictions as property values plummeted. Unemployment rates soared as businesses cut back or shut down, leading to significant job losses. When the U.S. housing market slowed in 2006, it disrupted and significantly affected multinational companies.

# The Lehman Brothers Collapse and the Global Financial Crisis

One MNC that stood out during this period was Lehman Brothers, a prominent investment bank headquartered in the United States. Pre-Crisis (2007 through June 2008), Lehman Brothers was actively involved in mortgage-backed securities and other complex financial products. Its stock price experienced fluctuations but remained relatively stable until mid-2008. The company was highly leveraged, relying on short-term funding to support its operations. Crisis Intensification (July 2008 onwards), the credit crisis deepened, and Lehman Brothers faced mounting challenges, such that the bank held significant exposure to subprime mortgages, which deteriorated rapidly. Lehman struggled to secure short-term funding, leading to liquidity issues. Lehman’s stock price plummeted, losing almost all its value by September 2008. On September 15, 2008, Lehman Brothers filed for bankruptcy—the largest in U.S. history.

Post-crisis (from 2009 onwards), Lehman’s bankruptcy had far-reaching consequences. It triggered a broader financial panic and further exacerbated the crisis. The crisis prompted regulatory reforms and changes in risk management practices. Investors lost confidence in financial institutions, affecting the entire industry. In the aftermath of Lehman Brothers’ collapse, the financial sector underwent significant changes to enhance stability and prevent future crises. Banks bolstered their capital cushions, ensuring better resilience against losses. Emphasis shifted toward higher-quality capital to withstand economic shocks. Investment banks decreased their reliance on short-term wholesale funding in favor of more stable deposits. This shift improved liquidity management and reduced vulnerability during crises.

Why Lehman Brothers? I chose Lehman Brothers because it epitomizes the severity of the crisis and serves as a cautionary tale for risk management, financial derivatives, and corporate governance. Its downfall highlighted the interconnectedness of global finance and the need for robust risk assessment.

# Multiple Questions on Global Credit Crisis: An Overview

## Was the MNC's revenue reduced due to weak global economic conditions?

As an investment bank, Lehman Brothers did not generate significant revenue from traditional business operations like manufacturing or retail sales. Instead, its revenue primarily came from financial services, including trading, investment banking, and asset management. Pre-Crisis (2007 through June 2008), Lehman’s revenue was substantial, driven by trading activities, underwriting, and advisory services. The bank benefited from a booming real estate market and securitization of mortgage-backed securities (Wiggins, 2014). Crisis Intensification (July 2008 onwards): As the crisis escalated, Lehman faced severe challenges, and the subprime mortgage market's collapse led to significant losses. Lehman struggled to raise capital and secure short-term funding. The bank had to write down the value of its assets significantly (Wiggins, 2014).

Lehman’s revenue declined sharply due to turbulent markets, resulting in trading losses. Investment banking deals slowed down. Lehman sold assets to raise capital, affecting revenue streams. In September 2008, Lehman’s bankruptcy wiped out its remaining revenue sources. Lehman Brothers’ revenue plummeted during the crisis, ultimately leading to its bankruptcy.

## Was it adversely affected by how the international credit crisis affected exchange rates?

The international credit crisis impacted exchange rates, which affected Lehman Brothers and other financial institutions. During the crisis, investors sought safe-haven currencies (like the U.S. dollar and Japanese yen), leading to their appreciation. Other currencies depreciated significantly due to risk aversion and capital flight. Lehman, like other banks, faced currency-related losses on its global operations. Lehman had significant exposure to foreign markets and conducted cross-border transactions. Currency fluctuations affected the valuation of Lehman’s assets and liabilities denominated in different currencies (CouncilonForeignRelations,2013)

Lehman used currency derivatives (such as forward contracts) to hedge against exchange rate risks. However, the crisis disrupted normal market functioning, making it challenging to execute effective hedges. Lehman operated in emerging markets with volatile currencies. Currency devaluation in these markets affected the bank’s profitability and solvency. Exchange rate volatility added to Lehman’s financial stress. The bank’s inability to manage currency risks exacerbated its liquidity crisis. During the credit crisis, Lehman Brothers faced adverse effects due to exchange rate fluctuations.

## Was it adversely affected because of problems in obtaining credit?

Lehman Brothers faced significant challenges in obtaining credit during the global financial crisis. Lehman relied heavily on short-term funding from the repo market and other sources. As the crisis intensified, lenders became wary of Lehman’s exposure to mortgage-backed securities and other risky assets. The bank struggled to secure necessary liquidity, leading to a severe liquidity crunch. Rating agencies downgraded Lehman’s credit rating, affecting its ability to borrow. Counterparties and investors grew cautious, reducing their willingness to extend credit to the bank.

Lehman’s financial health deteriorated, and counterparties demanded more collateral for existing transactions. This further strained the bank’s liquidity position. Negative sentiment surrounding Lehman eroded market confidence. Other financial institutions hesitated to lend to Lehman due to fears of contagion. Ultimately, Lehman Brothers’ inability to obtain sufficient credit led to its bankruptcy and the lack of available credit exacerbated the crisis and had far-reaching consequences. Lehman’s credit challenges significantly contributed to its downfall.

## Was it adversely affected because of the kind of international financial investments it had?

Lehman Brothers’ international financial investments significantly impacted its fate during the global economic crisis. Lehman held substantial Mortgage-Backed Securities (MBS), especially those tied to the U.S. housing market. As the subprime mortgage crisis unfolded, the value of these securities plummeted, causing massive losses. Lehman engaged in complex financial instruments, including collateralized debt obligations (CDOs) and credit default swaps (CDS). These derivatives were complex to value accurately, leading to uncertainty and risk exposure. Lehman had significant exposure to European sovereign debt and financial institutions. The European debt crisis (starting around 2010) further strained Lehman’s financial position.

Lehman operated with high leverage, amplifying gains but also magnifying losses. Its aggressive risk appetite left it vulnerable when market conditions deteriorated. Lehman’s interconnectedness with other financial institutions made it susceptible to contagion. When Lehman collapsed, it triggered panic and distrust across the global economic system. Lehman Brothers’ international investments, combined with market turbulence and risk exposure, played a pivotal role in its downfall.

## Was it directly or indirectly affected by transaction, economic, translation, and country risk exposures?

Lehman Brothers was significantly affected by various risk exposures during the global financial crisis. Transaction risk refers to potential losses due to fluctuations in exchange rates during cross-border transactions. Lehman’s international operations exposed it to transaction risk, especially when dealing with different currencies. Currency depreciation affected the valuation of assets and liabilities. Economic risk arises from macroeconomic factors (e.g., interest rates, inflation, economic growth). Changes in interest rates affected its borrowing costs and investment returns. The crisis led to a severe economic downturn, impacting Lehman’s profitability.

Translation risk relates to converting financial statements from foreign currencies to the reporting currency (usually U.S. dollars). Lehman’s global operations required currency translation, which could lead to gains or losses. Lehman operated in various countries, each with unique risks (political, regulatory, economic). Exposure to troubled markets (e.g., the European debt crisis) affected the bank’s overall risk profile. Lehman Brothers faced direct and indirect consequences from these risk exposures, contributing to its eventual collapse.

## Has the MNC recovered from the international crisis?

Unfortunately, Lehman Brothers did not recover from the global financial crisis. Its bankruptcy in September 2008 marked a pivotal moment in economic history. The collapse had far-reaching consequences, including regulatory reforms, increased risk awareness, and changes in risk management practices across the industry.

## What is the future outlook of the MNC's financial performance?

As of the last knowledge update, which was current until 2021, Lehman Brothers ceased to exist after its bankruptcy in 2008. The company’s downfall was irreversible, and it did not recover. However, the lessons learned from Lehman’s collapse continue to shape the industry's financial practices and risk management.

# Lehman Brothers and the Consequences of the Credit Crisis

Revenue:The collapse of Lehman Brothers during the global financial crisis had far-reaching consequences. Lehman’s bankruptcy triggered a broader financial panic, affecting markets worldwide. Economic activity in many countries has still not fully recovered to pre-crisis levels. One study estimates that the average American lost $70,000 in lifetime income due to the crisis. Governments faced increased public debt (more than 30% of GDP) due to economic weakness and efforts to stimulate their economies. Bailing out failing banks also contributed to rising debt levels. Lehman’s failure had ripple effects, reducing global access to capital for companies. Decreased demand for goods and services led to slower growth rates in export-dependent countries like China and Japan. Lehman’s collapse significantly impacted revenue streams, investor confidence, and economic stability (Lagarde, 2018).

Exchange rate effects:Like many global financial institutions, Lehman Brothers faced significant challenges during the financial crisis due to currency fluctuations and devaluations. Lehman operated in various countries, each with its own currency. As the crisis intensified, some currencies depreciated significantly, impacting the valuation of Lehman’s assets and liabilities. Lehman’s exposure to foreign markets meant it faced exchange rate risk. Fluctuations in exchange rates affected the profitability of its international operations. Currency volatility made it harder for Lehman to secure short-term funding. Adverse exchange rate movements further strained the bank’s liquidity position. Lehman’s bankruptcy had systemic implications, affecting other financial institutions worldwide. Exchange rate shocks contributed to the overall instability. Lehman Brothers’ exposure to currency risks significantly affected its downfall (Blythe, 2010).

Credit access:The global credit crisis, triggered by the collapse of Lehman Brothers in 2008, profoundly impacted credit availability for financial institutions and businesses worldwide. Lehman’s bankruptcy caused a liquidity crisis. Banks struggled to access funds for day-to-day operations due to a lack of trust among lenders. This contraction in credit availability deepened the global recessionary environment. Lehman’s failure shattered investor confidence. Other banks faced heightened scrutiny. Lenders became cautious, leading to reduced credit lines and stricter lending terms. Lehman’s collapse sent shockwaves through global financial markets. Defaulted loans on U.S. houses were linked to mortgage-backed securities issued to investors worldwide. Lehman Brothers’ bankruptcy significantly disrupted credit markets, affecting access to credit for businesses and individuals alike (Harvard Business School, n.d.).

International financial investment:The collapse of Lehman Brothers during the global financial crisis significantly affected its international financial investments. Lehman’s bankruptcy sent shockwaves through global financial markets. Defaulted loans on U.S. houses were linked to mortgage-backed securities issued to European and Asian investors. Lehman’s collapse disrupted the flow of goods, manufacturing, and job growth in Europe and Asia. Lehman had been a significant issuer of short-term debt (commercial paper). Its collapse caused a credit freeze in this vital source of lending worldwide. Lehman Brothers’ downfall had far-reaching consequences, affecting investors and economies across continents (Harvard Business School, n.d.).

Transaction, economic, translation, and country risk exposures:The global credit crisis significantly affected Lehman Brothers’ exposure to thetransaction, economic, translation, and country risks. Lehman’s cross-border transactions faced heightened risk due to currency fluctuations and liquidity constraints. The crisis disrupted normal market functioning, impacting the valuation of assets and liabilities. Lehman’s exposure to global economic conditions affected its profitability. Economic downturns led to losses and reduced investor confidence. Currency depreciation impacted Lehman’s financial statements. Converting foreign currency values to the reporting currency (usually U.S. dollars) became challenging. Lehman operated in various countries, each with unique risks (political, regulatory, economic). Exposure to troubled markets affected the bank’s overall risk profile. Lehman Brothers faced a complex web of risks during the crisis, ultimately contributing to its downfall.

# Evaluation of Lehman Brothers’ Financial Health and Performance

Let us assess Lehman Brothers’ current financial performance and explore whether it has recovered since its bankruptcy in 2008. Lehman Brothers Inc. (LBI), the brokerage arm of Lehman, underwent a 14-year liquidation process under the Securities Investor Protection Act (SIPA). The liquidation was conducted by Trustee James W. Giddens and resulted in the return of more than $115 billion to LBI customers and creditors. Customers received $106 billion, fully satisfying their claims and secured priority, and administrative creditors also received 100% distributions. Unsecured general creditors received a 41.28% recovery on their allowed claims. A novel liquidating trust established in June 2022 allows certain unsecured general creditors to potentially receive further distributions from the LBI Liquidating Trust (SIPC, 2024).

The pre-negotiated sale of LBI’s U.S. brokerage assets to Barclays Capital Inc. allowed a significant portion of LBI’s customers to transfer to a new, solvent broker-dealer. The sale and pre-liquidation transfer of LBI’s valuable subsidiaries left LBI with no liquid assets at the commencement of the liquidation against $23 billion in liabilities. Despite these challenges, the recoveries were a testament to the SIPA framework, regulatory support, and judicious oversight. The LBI proceeding addressed numerous complex issues, setting key precedents for future SIPA proceedings. Parallel affiliate proceedings involving hundreds of affiliates in 16 jurisdictions contributed to the recovery. Settlements with Lehman affiliates and contested litigation played a role in achieving recoveries exceeding $100 billion (SIPC, 2024).

Unlike other bailouts during the crisis, Lehman was not deemed “too big to fail.” The government’s decision not to rescue Lehman was influenced by various factors, including concerns about moral hazard and the lack of a buyer willing to absorb Lehman’s liabilities (Staff, 2018). Lehman Brothers’ liquidation process resulted in substantial recoveries, but the company did not recover. The lessons learned from Lehman’s collapse continue to shape financial practices globally.

While Lehman Brothers did not recover, the lessons learned from its collapse continue to shape financial practices. The future outlook lies in prudent risk management, regulatory compliance, and adapting to changing market dynamics.

# Conclusion

The global financial crisis of 2007–2008 left indelible marks on the financial landscape. The crisis revealed vulnerabilities in risk management, transparency, and interconnectedness. Learning from Lehman’s downfall can guide us toward a more resilient and transparent financial system. Lehman Brothers’ collapse exemplified the consequences of excessive leverage and complex financial instruments. Regulatory reforms followed, emphasizing capital adequacy, stress testing, and systemic risk awareness.

Recommendations for the Future:

* Robust Risk Assessment: Companies must rigorously assess risks, communicate transparently, and avoid overreliance on complex instruments.
* Liquidity Management, maintaining sufficient liquidity buffers, and diversifying funding sources.
* Corporate Governance prioritizes stability over short-term gains, with robust accountability mechanisms.
* Systemic Risk Monitoring: Regulators should focus on systemic risks and stress testing.
* Global Cooperation collaborates internationally to prevent contagion and stabilize markets.

# References

Blythe, N. (2010). How did Lehman’s collapse affect the world of finance? https://www.bbc.com/news/business-11310143

Harvard Business School (n.d.). Global Impact of the Collapse. https://www.library.hbs.edu/hc/lehman/exhibition/global-impact-of-the-collapse

SIPC (n.d.). Lehman Brothers Inc.’s 14-Year Liquidation Successfully Concludes. https://www.sipc.org/news-and-media/news-releases/20220928

Staff, W. (2018). Not Too Big To Fail: Why Lehman Had to Go Bankrupt. https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/the-good-reasons-why-lehman-failed/

(n.d.). Global Impact of the Collapse. Harvard Business School. https://www.library.hbs.edu/hc/lehman/exhibition/global-impact-of-the-collapse

CouncilonForeignRelations (2013). Reflecting on Lehman’s Global Legacy. https://www.cfr.org/expert-roundup/reflecting-lehmans-global-legacy

Jobs & The Economy (n.d.). Putting America Back to Work. The Obama White House. https://obamawhitehouse.archives.gov/economy/middle-class/dodd-frank-wall-street-reform

Rodini, L. (2023, July 14). What Happened to Lehman Brothers? Why Did it Fail? The Street. https://www.thestreet.com/personal-finance/what-happened-to-lehman-brothers

Lioudis, N. (2023, March 10). The Collapse of Lehman Brothers: A Case Study. Investopedia. https://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp

Silver, C. (2023, September 12). Lessons From the 2008 Financial Crisis. Investopedia. https://www.investopedia.com/news/10-years-later-lessons-financial-crisis/

Wiggins, R. Z., Piontek, T. & Metrick, A. (2015). The Lehman Brothers Bankruptcy A: Overview. https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=1000&context=journal-of-financial-crises

Bus, A. (2024). Lehman Brothers: Understanding Its Collapse, Impact, and Lessons Learned. https://www.supermoney.com/encyclopedia/is-lehman-brothers-still-in-business

Kerkemeyer, A. (2019). A Decade after Lehman: An Assessment of Key Regulatory Responses to the Global Financial Crisis. https://www.degruyter.com/document/doi/10.1515/ecfr-2019-0015/html

Barajas, A., Kiefer, C. R., & Walsh, J. P. (2018). A Decade After Lehman, the Financial Systemn Is Safer. Now We Must Avoid Reform Fatigue. https://www.imf.org/en/Blogs/Articles/2018/10/03/blog-a-decade-after-lehman

Liesman, S.(2013). 5 years after Lehman collapse, is your bank safe? https://www.cnbc.com/id/101025396

Demirguc, A. (2018). Ten Years after Lehman: Where are we now? https://blogs.worldbank.org/en/allaboutfinance/ten-years-after-lehman-where-are-we-now

Asmundson, I., Dorsey, T., Khacharyan, A., Niculcea, I. & Saito, M. (2010). Trade and Trade Finance in the 2008-09 Financial Crisis. https://www.hbs.edu/ris/Publication%20Files/10-110\_0b28c861-4aad-4b1d-8bfe-d40f0137d3f3.pdf

Alfaro, L. & Chen, M. (2010). Surviving the Global Financial Crisis: Foreign Direct Investment and Establishment Performance. https://www.hbs.edu/ris/Publication%20Files/10-110\_0b28c861-4aad-4b1d-8bfe-d40f0137d3f3.pdf

Statista.com (2024). The Global Financial Crisis – Statistics & Facts. https://www.statista.com/topics/10195/the-global-financial-crisis/#topicOverview

# Exhibit

SEC.gov (2008). FORM 10-K. https://www.sec.gov/Archives/edgar/data/721647/000114036108015838/form10k.htm#fin

SEC.gov (n.d.). Lehman Brothers Announces Preliminary Third Quarter Results and Strategic Restructuring. https://www.sec.gov/Archives/edgar/data/806085/000110465908057829/a08-22764\_2ex99d1.htm

SEC.gov. Monthly Operating Report (2010). https://www.sec.gov/Archives/edgar/data/806085/000119312510284647/dex991.htm

LCH.Clearnet (2008). Annual Report and Consolidated Financial Statements. https://www.lch.com/system/files/media\_root/Annual%20Reports/LCH.Clearnet%20Annual%20Report%20and%20Consolidated%20Financial%20Statements%202008.pdf

Stanford.edu (2008). Business and Financial Review Q2 2008. https://web.stanford.edu/~jbulow/Lehmandocs/docs/DEBTORS/LBHI\_SEC07940\_659768-659804.pdf

**A blue and white sheet with numbers and text

Description automatically generated**

**A screenshot of a computer screen

Description automatically generated**

**A blue and white striped background

Description automatically generated**

**A blue and white striped background

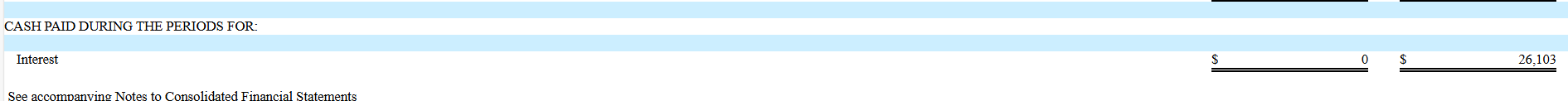
Description automatically generated**

**A close-up of a document

Description automatically generated**

**A blue and white striped background

Description automatically generated**

****

**A close-up of a blue and white rectangle

Description automatically generated**