Ernst & Young's Involvement with Lehman Brothers' Downfall

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24 September 2015

One of the largest investment companies in the world suddenly vanished, filing bankruptcy that impacted our world today. Lehman Brothers were at the top of the charts; or at least that is what was portrayed in the media. The white collar crime that lost hundreds of billions of dollars has been inexistent, but still an unforgettable tragedy that effected the lives of so many. The tragedy continues as cases come to their final decisions, including the involvement of Ernst & Young's accounting team.

The questions that must be resolved are what factors led to the Lehman Brothers' financial crisis? What was Ernst & Young's involvement and how did they cease to hide the facts behind Lehman Brothers' downfall? Answers to these issues should assist us to further understand the causes and effects behind the largest bankruptcy in history.

Lehman Brothers were one of the five largest U.S. investment companies, however on September 15, 2008, the company filed for bankruptcy. The shocking financial disaster not only took a toll on the employees of the company, but also on the financial markets, investors, families, and the global economy. Investors and government authorities were being misled for years on how well the company was actually doing, leaving them with little sense of how to overcome the financial crisis. (Kroft, Jacoby, Karzis, 2012).

The unpredictable collapse occurred because of several cover-ups and false information that was presented by Lehman Brothers along with the participation of one of the top accounting firms, Ernst & Young. With the assistance of the accounting firm, Lehman Brothers were able to cover up any issues that had been occurring for at least a few years. The concerns included the significant amount of assets the company truly had, with over $600 billion in assets, they felt on top of the world. Unfortunately, that did not include the amount of company debt the company was experiencing, which by 2008 was also over $600 billion (Investopedia, 2014).

Other factors were expressed later in a CBS “60 Minutes,” interview with Anton Valukas, U.S Attorney for the Lehman Brothers’ report. The truth that came out of the report was that Lehman Brothers’ overconfidence with the real estate markets led to a huge amount of loss when the markets began to collapse, as well as the borrowing of too much money in order to make deals and the Lehman executives manipulation of financial reports to keep investors interested (Kroft, Jacoby, Karzis 2012).

These aspects all concluded with the involvement of Ernst and Young, by allowing the executives to manipulate these reports and not doing anything to stop it. Ernst and Young obviously did not show any type of seniority over the Lehman Brothers by signing off and not auditing millions of fraud reports. With all of these issues and secrets built up, the company found itself hitting rock bottom.

Ernst & Young’s accounting team was in charge of auditing and overseeing the investment company’s reports. The accounting firm’s involvement demonstrated the allowance of covering up Lehman’s misleading financial report. The firm knowingly approved the removal of billions of dollars in debt within Lehman’s quarterly reports (Freifeld, 2015). By affiliating with this scandal, Ernst & Young found themselves in a “massive accounting fraud”, leaving them with several white collar cases throughout the past seven years. According to the author of Sustainability and Governance, Cheryl Lehman said that “Ernst and Young was accused of issuing an unqualified opinion on the financial statements of Lehman when it was allegedly aware that the bank was using an accounting maneuver known as ‘Repo 105’ to make itself appear healthier than it really was” (Lehman, 4). This demonstrates the criminal fraud that Ernst and Young participated in with the Lehman Brother’s downfall.

This past spring, Ernst & Young has settled to pay $10 million for the auditing scandal associated with Lehman Brothers during the investment company’s existence. The case declared that Ernst & Young assisted in deceiving investors with Lehman’s misleading financial reports (Reuters, 2015). The lawsuit was filed in 2010, suing Ernst & Young for over $150 million in money earned from executing business with Lehman Brothers (2015). Recent development of the case has found the settlement of $10 million did not include the $99 million Ernst & Young will pay to investors for damages caused by the crime (2015). Luckily for Ernst & Young, the criminal case concluded that they were not responsible in any way for the collapse of Lehman Brothers.

With such power should come a high sense of integrity, but unfortunately Lehman Brothers were unable to succeed because of the greed around them. Being such a well-known and established investment company partnering with a top accounting firm, nothing seemed like it could go wrong. The criminal case was a shock that will never be forgotten, especially to the ones primarily affected by the downfall. Through personal experience, watching family and friends suffer through the losses of millions of dollars invested into Lehman Brothers, penalization should be a factor for not issuing the matter before it was too late.

Thinking about this economic crime makes me wonder about the ethical and human values rather than what may make the most profit for a company. Lehman Brothers had several reasons for the 2008 collapse and after further investigation Ernst & Young's involvement does not seem all that innocent. By allowing misleading financial reports to be approved, the firm demonstrates unlawful actions. According to Lehman Brothers' Code of Ethics from 2004, they aim to have, "Full, Fair, Accurate, Timely and Understandable Disclosure" (Lehman Code of Ethics, 2004). In other words, all employees and directors must comply with preparing an accurate and fair analysis of all financial reports. Nonetheless, Lehman Brothers broke their own code of ethics through the scandal during the last few years of the company's existence. Ernst & Young may also be a culprit of disclosing wrongful financial reports for Lehman Brothers, leaving their firm reliable for immoral actions.

Aside from breaking the accurate disclosure section of Lehman's code of ethics, they also revealed the violation of "Fair Dealing," also known that "no individual should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other intentional unfair dealing or practice," (Lehman Brothers Code of Ethics, 2004). Lehman Brothers proved to violate the "Fair Dealings" code by providing misrepresented dealings to their clients and investors. This led to the outbreak of the crime, which in turn caused so many employees, investors and families suffering the loss of billions of dollars.

As all of the facts begin to unfold about the Lehman Brothers and Ernst & Young's involvement with the scandal, it helps to ponder what the true intentions were? Obviously breaking Lehman's own code of ethics in several different ways was never their intention, but the fact of the matter is some form of punishment was vital because of the criminal conduct. Even though seven years have gone by and our global economy has suffered through the hardship of a top investment company filing for bankruptcy, we can only hope that the future of the financial industry will be better, safer and stronger, given current regulatory efforts.

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