

# Management's Discussion of Financial Responsibility, Disclosure Controls and Procedures, and Report on Internal Control Over Financial Reporting

## Financial Responsibility

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards. Corporate Audit reports directly to the Audit Committee of the Board of Directors, providing independent appraisals of Merrill Lynch's internal controls and compliance with established policies and procedures. Finance management establishes accounting policies and procedures, measures and monitors financial risk, and independently from the businesses prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Independent risk groups monitor capital adequacy and liquidity management and have oversight responsibility for Merrill Lynch's market and credit risks independent from business line management. These groups have clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks. The Office of the General Counsel serves in a counseling and advisory role to management and the business groups. In this role, the Office of the General Counsel develops policies; works with the business in monitoring compliance with internal policies, external rules, and industry regulations; and provides legal advice, representation, execution, and transaction support to the businesses.

ML & Co. has established a Disclosure Committee to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for overseeing the accuracy and timeliness of disclosures made by ML & Co. The Disclosure Committee is made up of senior representatives of Merrill Lynch's Finance, Investor Relations, Office of the General Counsel, Treasury, Tax and independent risk groups, and is responsible for implementing and evaluating disclosure controls and procedures on an ongoing basis. The Disclosure Committee meets at least eight times a year. Meetings are held as needed to review key events and disclosures impacting the period throughout each fiscal quarter and prior to the filing of ML & Co.'s Form 10-K and 10-Q reports and proxy statement with the SEC.

The Board of Directors designated Merrill Lynch's Guidelines for Business Conduct as the company's code of ethics for directors, officers and employees in performing their duties. The Guidelines set forth written standards for employee conduct with respect to conflicts of interest, disclosure obligations, compliance with applicable laws and rules and other matters. The Guidelines also set forth information and procedures for employees to report ethical or accounting concerns, misconduct or violations of the Guidelines in a confidential manner. The Board of Directors adopted Merrill Lynch's Code of Ethics for Financial Professionals in 2003. The Code, which applies to all Merrill Lynch professionals who participate in our public disclosure process, supplements our Guidelines for Business Conduct and is designed to promote honest and ethical conduct, full, fair and accurate disclosure and compliance with applicable laws.

The independent registered public accounting firm, Deloitte & Touche LLP, performs annual audits of Merrill Lynch's financial statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States). They openly discuss with the Audit Committee their views on the quality of the financial statements and related disclosures and the adequacy of Merrill Lynch's internal accounting controls. Quarterly review reports on the unaudited interim financial statements are also issued by Deloitte & Touche LLP. The Audit Committee appoints the independent registered public accounting firm. The independent registered public accounting firm is given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, the Board of Directors, and committees of the Board.

As part of their oversight role, committees of the Board supervise management in the formulation of corporate policies, procedures and controls. The Audit Committee, which consists of four independent directors, oversees the internal audit function and considers the adequacy of our internal controls. In addition, the Audit Committee reviews the framework established by management to assess and manage the major categories of risk affecting Merrill Lynch; the policies and procedures for managing operational, legal and reputational risk; and oversees the compliance function. It also reviews the annual Consolidated Financial Statements and other material financial information with management and Merrill Lynch's independent registered public accounting firm, and evaluates the performance, independence and fees of our independent registered public accounting firm and the professional services it provides. The Audit Committee also has the authority to appoint or replace the independent registered public accounting firm and monitors the treatment of concerns relating to accounting, internal accounting controls and auditing matters reported by employees, shareholders and other interested parties.

The Finance Committee, which consists of four independent directors, reviews, recommends, and approves policies regarding financial commitments and investments. It also reviews and approves certain financial commitments, acquisitions, divestitures, and proprietary investments. In addition, the Finance Committee oversees balance sheet and capital management, corporate funding policies and financing plans. It also reviews Merrill Lynch's policies and procedures for managing exposure to market and credit risks, and when appropriate, reviews significant risk exposures and trends in these categories of risk.



## ■ Disclosure Controls and Procedures

During the 2007 year-end financial close process, management implemented additional reviews and analyses of certain financial data presented in the Consolidated Financial Statements, including an enhanced review of the Consolidated Statements of Cash Flows. As a result of the enhanced reviews, the Company discovered an error, due to an adjustment that incorrectly reflected cash flows received from certain customer transactions, affecting its Consolidated Statements of Cash Flows for 2005 and 2006. The adjustment resulted in an overstatement of cash flows received from derivatives financing transactions (financing activities) and was offset by a corresponding overstatement in cash flows used for trading liabilities (operating activities). Management determined that its 2005 and 2006 Consolidated Statements of Cash Flows should be restated and has done so in its 2007 Annual Report.

ML & Co.'s Disclosure Committee assists with implementing, monitoring and evaluating our disclosure controls and procedures. ML & Co.'s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.'s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.'s disclosure controls and procedures are effective.

No other change in ML & Co.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth fiscal quarter of 2007 that has materially affected, or is reasonably likely to materially affect, ML & Co.'s internal control over financial reporting.

## ■ Report on Internal Control Over Financial Reporting

Management recognizes its responsibility for establishing and maintaining adequate internal control over financial reporting and has designed internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements and related notes in accordance with generally accepted accounting principles in the United States of America. Management assessed the effectiveness of Merrill Lynch's internal control over financial reporting as of December 28, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, management believes that Merrill Lynch maintained effective internal control over financial reporting as of December 28, 2007.

Deloitte & Touche LLP, Merrill Lynch's independent registered public accounting firm, has issued an opinion on the effectiveness of Merrill Lynch's internal control over financial reporting as of December 28, 2007, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This report appears under "Report of Independent Registered Public Accounting Firm" on the following page.

New York, New York  
February 25, 2008