From:	Fleming, Dan (TSY) [dfleming@lehman.com].	Sent:2/26/2008 6:29 PM.
To:	Tonucci, Paolo [paolo.tonucci@lehman.com].	
Cc:	.	
Bcc:	.	
Subject:	FW: JPMC US Clearance Collateral Review- Call Summary.	

The market risk proposal may create very sizable intraday liquidity challenges for us. We will take a look at the numbers in more detail and engage JPM to assess the impact but wanted to flag this to you.

> ____
> From: Birney, Janet
> Sent: Tuesday, February 26, 2008 5:19 PM
> To: Fleming, Dan (TSY); Ullman, Neal (NY); Fondacaro, Jack; Cornejo,
> Emil; Feraca, John; Tonucci, Paolo; Palchynsky, John N
> Cc: Boyle, Julie; Jones, Craig L
> Subject: JPMC US Clearance Collateral Review- Call Summary
>
>
>
>
> JPMC Attendees:
> Jon Ciciola, MD Broker Dealer Services
> Mark Doctoroff, Relationship Manager
> Ray Stancil, Broker Dealer Operations (via phone)
>
> Lehman Attendees:
> Emil Cornejo, Relationship Manager
> Jack Fondacaro, Operations
> Janet Birney, Network Management
>
> Regrets: John Feraca, Neal Ullman
>
>
> Background: JPMC requested the meeting which had two purposes: 1)
> Relationship Appreciation and 2) Market Risk
>
> 1) Relationship Appreciation:
> In recognition of our overall relationship and continued increase in
> business growth, Jon offered to reprice our government clearing and
> Triparty business.
>
> Proposal:
> 1. Eliminate the current tiering of trades <50,000 a month so that
> all trades are priced at $1.25.
> 2. Reduce the bps charge on Triparty collateral from .50 to .45.
> Based on 2007 levels, this equates to an annualized save of ~$1.4
> million.
>
> 2007 Cost Savings Percentage
> Government $8,900,000 $525,000 5.90%
> Triparty $8,500,000 $858,125 10.10%
> Total $17,400,000 $1,383,125 7.95%
>
> Response:
> Based on increases of 11% and 14% year over year, we asked if they
> could look to add further tiers for each business for improved upside
> protection.
>
> 2) Market Risk:
> The recent market turmoil has prompted the Fed to question JPMC on the
> viability of Triparty financing in the event of broker dealer default.
> The senior management team (up to and above Heidi Miller) have focused
> a great deal of effort on this initiative. They have spent
> considerable time analyzing hard-to-price collateral and have looked
> at scenarios for both overnight and intraday.
>
> Proposal:
> JPMC will hold back the margin on the collateral as a counter debit to

> the Net Free Equity (NFE) calculation, e.g. - for an asset at 102 they
> would keep the 2. The rationale being if this methodology is applied
> to all asset classes, the risk of a misprice would be offset by a more
> liquid asset. JPMC said this was not something they would implement
> "big bang" but could be done incrementally. It is their understanding
> that BONY does this currently. The implementation timeline would be
> over the next 5-6 weeks.
>
> Response:
> Lehman reiterated the importance of NFE and the continued concern
> internally about the cost of Daylight Overdraft. We asked specifically
> for JPMC to share the analysis on this so we could assess the impact
> from a cost and processing standpoint.
>
> Next Steps:
> * JPMC to provide analysis early next week of impact based on what
> we are putting through Triparty this week.
> * Engage the appropriate Lehman team to evaluate the assessment
> and overall impact (Dan Fleming, etc).
>
>
>
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> Lehman Brothers
> Treasury-Global Head of Network Management
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