

From: Tonucci, Paolo [paolo.tonucci@lehman.com]

Sent: 5/20/2008 7:27 PM

To: Azerad, Robert [RAzerad@lehman.com]

Cc:

Bcc:

Subject: FW: ZFRSSE - Discussion topics for meeting on May 28

this is the request (attached).

Let's discuss tomorrow

Paolo

From: william.brodows@ny.frb.org
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Sent: 20 May 2008 17:06

To: Tonucci, Paolo

Subject: Fw: ZFRSSE - Discussion topics for meeting on May 28

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May 20, 2008

**Joint Request from SEC and FRBNY:
Liquidity Scenarios for CSEs**

OBJECTIVE

It is the objective of the SEC and FRBNY to understand each CSE's current ability to withstand a severe liquidity stress, albeit less severe than the recently produced "Bear Stearns-type" scenario, and which also assumes no reliance on any of the new facilities currently available at the Federal Reserve or on any non-standard, emergency facilities of other central banks. Specifically, each CSE should prepare a liquidity stress analysis which takes into account a very substantial market disruption resulting in significant impairment of the ability to obtain secured funding apart from OMO-eligible collateral, as well as the full range of potential knock-on effects arising from a lack of confidence expressed by counterparties and other customers.

CONSTRUCTION OF LIQUIDITY STRESS SCENARIO

Accordingly, the SEC and FRBNY ask the CSEs to develop one or more severe stress scenarios. Each CSE will make its own assumptions for nearly all aspects of the scenario(s), including impairment to sources and accelerated uses of funds. The only constraints on the scenarios are as follows:

- Each CSE is to produce a projection of cash flows each day for the first 2 weeks and the weekly totals for the next 2 weeks (cumulative totals should be shown as well). These cash flows should be presented for the parent company and the major subsidiaries (e.g., the US broker/dealer, the UK broker/dealer and other major operating entities).
- All assumptions should be documented and provided to the SEC and FRBNY.

While the assumptions to be used are at the discretion of each CSE, we provide, for convenience, an attachment that outlines of some of the areas likely be impacted in a stress scenario.

Attachment

Areas of Potential Impact in a Stress Scenario

Funding

- Unsecured
 - CP and other debt maturing within 2/4 weeks
 - Buybacks (CP, LTD, Other)
 - Deposits of banking affiliates
 - Other unsecured liabilities
- Secured
 - Fixed income
 - Open Market Operations-Eligible (Treasuries, Agencies, Agency MBS)
 - Other highly liquid securities (e.g., foreign central bank OMO-eligible)
 - Less liquid fixed income securities
 - Equities
 - Cash financing: repo, stock loan
 - Non-cash financing: collateral exchanges
 - Conduit financing/other secured financing
 - Matched books/matched funding

Operating cash flows

- Prime brokerage
 - Customer withdrawals: free credits, short positions; lag in releasing lock up
 - Margin loans
 - Other
- Derivatives-related/Cash flow mismatches
 - Collateral calls
 - Margin payments vs. receipts
 - Derivatives payments vs. receipts (e.g., swaps)
 - Other

Commitments and other liabilities

- On boarding of assets
 - Loan commitments; other contractual obligations
 - Reputational (discretionary)
- Put back of liabilities
- Other liabilities/commitments

Funding sources

- Parent company liquidity pool
- Overfunding of repo; repo lines
- Bank lines
- Affiliate bank and broker/dealer sources
- Other