

From: <Gerard.LaRocca@barclayscapital.com>
Sent: Oct 01, 2008 13:49:04
To: <Stephanie.Heller@ny.frb.org>
Cc: <Jonathan.Hughes@barclayscapital.com>
Bcc: <Jonathan.Hughes@barclayscapital.com>
Subject: RE: Confidential -- Barclays Capital/JPMorgan Summary

David Petrie our repo trader was there Thursday night

From: Stephanie.Heller@ny.frb.org [mailto:Stephanie.Heller@ny.frb.org]
Sent: Wednesday, October 01, 2008 9:31 AM
To: LaRocca, Gerard: Barclays Capital (NYK)
Cc: Hughes, Jonathan: Legal (NYK)
Subject: RE: Confidential -- Barclays Capital/JPMorgan Summary

Thanks. Do you think bringing a Lehman person who was there Thursday night might help?

10/01/2008 09:24 AM

To
cc
Subject RE: Confidential -- Barclays Capital/JPMorgan Summary

Richard Ricci
Jonathan Hughes
Gerard LaRocca
David Petrie
Michael Klein

-----Original Message-----

From: Stephanie.Heller@ny.frb.org [mailto:Stephanie.Heller@ny.frb.org]
Sent: Wednesday, October 01, 2008 8:49 AM
To: Hughes, Jonathan: Legal (NYK)
Cc: LaRocca, Gerard: Barclays Capital (NYK)
Subject: Re: Confidential -- Barclays Capital/JPMorgan Summary

Thanks. Can you send me the names of the folks who will be joining you today (if any) so I can give them to our protection staff. Thanks

Sent from my BlackBerry Handheld.

----- Original Message -----

From: [Jonathan.Hughes@barclayscapital.com]

Sent: 10/01/2008 06:35 AM AST

To: Stephanie Heller

Cc:

Subject: Confidential -- Barclays Capital/JPMorgan Summary

Stephanie,

This is a slightly longer version of the summary of events that we sent to you the other day. I thought it might be helpful for you and Tom Baxter to see it before today's meeting.
Jonathan.

> Jonathan Hughes

> Global General Counsel

Barclays Capital

> Tel: + (1) 212 412 3519 or +44 (0)207 773 4154

> Cell: + (1) 646 236 3129

> Email: jonathan.hughes@barclayscapital.com

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> * JPMorgan has converted and failed to deliver to Barclays Capital \$7 billion of Barclays Capital's cash.

> * On September, 16, 2008, Barclays Capital agreed to the request of the Fed to replace the Fed as secured lender of \$45 billion to LBI.

This was to be done by Barclays Capital doing a reverse repo with LBI pursuant to which Barclays Capital would provide \$45 billion in funding and would become repo owner of the \$49.6 billion in securities that had been used to collateralize LBI's loan from the Fed.

> * JPMorgan agreed to act as a bailee and custodian for the assets and securities of LBI as seller and Barclays Capital as buyer and to maintain custodial accounts for each. JPMorgan's simple role in this capacity was to receive and hold the cash and securities of the two parties and to act at their instructions with respect to their respective property. JPMorgan has no rights with respect to any of these accounts, including no set-off rights.

> * Following high-level business assurances from JPMorgan that Barclays Capital's cash and securities would be moved properly and efficiently through Barclays' accounts, on 9/18 JPMorgan as custodian bank received from Barclays Capital \$45 billion and received the \$49.6 billion in LBI's securities. JPMorgan then began the process of transferring those securities to Barclays Capital; however, only \$42.6 billion worth of those securities were transferred prior to the close of DTCC at 11:00 p.m.

> * Early Friday morning, September 19, the delivery shortfall was satisfied by JPMorgan crediting Barclays Capital's custodian account at JPMorgan with \$7 billion in cash from LBI. Account statements for September 18 and Sept. 19 confirm the \$7 billion in Barclays Capital's

custodian account at JPMorgan. JPMorgan further confirmed that, at the opening of business Friday morning, they would transfer the \$7 billion to Barclays Capital's demand deposit account ("DDA") at Bank of New York.

> * Instead, at some point between Friday September 19 and Monday September 22, JPMorgan misappropriated the \$7 billion by wrongfully transferring the money from Barclays' account to an unidentified JPMorgan account.

> * Since Friday, September 19, JPMorgan has failed to return the \$7 billion to Barclays Capital or to comply with instructions to move the funds to specified Barclays Capital accounts. On September 29, JPMorgan raised an issue concerning an independent \$15.8 billion repo transaction between Barclays Capital and LBI which had been closed out at 10:45 a.m. Thursday September 16 -- i.e., before any discussions or actions relating to the balance of the Fed repo transaction. At no point prior to September 29 did JPMorgan make the inappropriate claim that Barclays Capital's re-funding the \$15.8 billion repo with LBI was somehow a pre-condition for JPMorgan to fulfill its role as custodian of the \$7 billion tail on the \$45 billion repo.

> * A services and settlement agreement dated September 22 between Barclays and JPMorgan in any event releases all claims with respect to the \$15.8 billion repo.

> * Barclays Capital is willing and able to participate in discussions with JPMorgan regarding any of the transactions during the period, but only after this simple but important problem is resolved by the return of Barclays Capital's cash. We believe that JPMorgan, separately, is holding substantial amounts of assets against its exposures to LBI.

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