

From: Susan McLaughlin/NY/FRS

Sent: Sep 18, 2008 15:58:43

To: Lucinda M Brickler/NY/FRS@FRS

Cc: Andrew Danzig/NY/FRS@FRS; Annmarie RoweStraker/NY/FRS@FRS; Brian Begalle/NY/FRS@FRS; Chris Burke; Chris.McCurdy@ny.frb.org; Dina Marchioni/NY/FRS@FRS; Frank Keane/NY/FRS@FRS; HaeRan Kim/NY/FRS@FRS; James P Bergin/NY/FRS@FRS; Joyce Hansen/NY/FRS@FRS; Lisa Joniaux/NY/FRS@FRS; Lorie Logan/NY/FRS@FRS; Michael Schetzel/NY/FRS@FRS; Rania C Jamal/NY/FRS@FRS; Richard Roberts/NY/FRS@FRS; Sandy.Krieger@ny.frb.org; Spence Hilton; Stephanie Heller/NY/FRS@FRS; Theodore Lubke/NY/FRS@FRS; Thomas Baxter/NY/FRS@FRS; William Dudley/NY/FRS@FRS; William Walsh/NY/FRS@FRS

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Subject: Re: IMPORTANT: lbi/bci transactions tomorrow

got it.

Susan McLaughlin
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Lucinda M Brickler/NY/FRS

09/18/2008 03:54 PM

To Susan McLaughlin/NY/FRS@FRS

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Subject Re: IMPORTANT: lbi/bci transactions tomorrow

Yes, but BCI needs to forward the loan proceeds from PDCF from its cash account at BNYM to Barclays Bank cash account via Fedwire before the end of the day because the bank is providing the liquidity to get jPMC to release their hold on Lehman's securities so they can be sent.

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Susan McLaughlin/NY/FRS

09/18/2008 03:52 PM

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Subject Re: IMPORTANT: lbi/bci transactions tomorrow

Thanks for the update. One piece of good news is that although this transfer's execution will likely delay PDCF loan booking, PDCF loan timing does not affect Fedwire - as the loans are credited to the clearing banks who then move funds into dealer accounts on their books, rather than going out as wires.

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09/18/2008 03:40 PM

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Subject Re: IMPORTANT: lbi/bci transactions tomorrow

Update 9/18 3:30 p.m.

FRBNY to Exam. 017510

This is what I think I know...

JPMC and Barclays do seem to have a genuine disagreement about the treatment of the collateral that was supporting JPMC's intraday loan to Lehman, but Gerard LaRocca did not indicate that this was a show stopper for moving the securities positions today. This is something they felt they could fight with JPMC tomorrow or Monday. JPMC wants to hold the collateral until they can reconcile all the accounts in which they have LBI exposures. Barclays expected to get it now.

All folks seem to be in agreement that there was an operational glitch in the setup of Lehman's account at DTCC that was causing securities it was trying to forward on to Barclays to be returned to JPMC. I am told that this has been fixed and have heard from Lisa Joniaux that DTC estimates that all the deliveries will be made by 6:00 p.m.

We haven't been able to track down the origins of the complaint that Barclays requested that DTC open a new account for the new securities. Gerard LaRocca was not aware of this. He will confirm with his counsel, Alan Kaplan that this wasn't a legal issue.

JPMC will be sending Fedwire eligible securities to BNYM for credit to BCI's account via Fedwire, so they will need and have requested Fedwire extensions. Ray Stansel at JPMC is taking the lead on this. I've forwarded his contact info to our ops folks in the event that they don't already have it.

Barclays plan going into the day was to repo in Lehman's collateral in \$5 billion chunks to limit their exposure. I don't know if this is still the plan or if they plan to step this up given how late it is.

They have a lot of work to get done this afternoon...we will need to be flexible and in communication about pdfc deadlines and Fedwire funds and securities extensions

Please chime in if you have additional or conflicting information. I will keep everyone informed to the best of my ability.

Lucinda

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09/17/2008 07:53 PM

To Bill Dudley, Sandy.Krieger@ny.frb.org, Annmarie RoweStraker/NY/FRS@FRS, Joyce Hansen, Lorie Logan/NY/FRS@FRS, Michael Schetzel/NY/FRS@FRS, Susan McLaughlin/NY/FRS@FRS, Spence Hilton, Bill Walsh, Brian Begalle/NY/FRS@FRS, Frank Keane/NY/FRS@FRS

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Subject IMPORTANT: lbi/bci transactions tomorrow

Bill and Sandy (and others)

We (see cc list) just met with BCI, LBI and BNYM folks (names at bottom of email) to go through transactions that they will execute tomorrow that will permit Barclays to take possession of Lehman's collateral and extinguish Lehman's PDCF (\$20 billion), OMO (\$7 billion) and TSLF (\$20 billion) activity with us. Barclays plans to bring all the collateral to the PDCF tomorrow for a PDCF loan (\$47 billion). They expect to be able to finance all this collateral in the market within 2 weeks. (They need this time to get all the cusips into their systems and find counterparties. They expect the loan amount to decline each day as they get up to speed.)

I believe this will have a net impact of +\$20 billion of funds in the market because the collateral that previously supported treasury borrowing in the TSLF will now be funded in the PDCF. The extinguishing of LBI's OMO position will also cause a balance sheet reporting discrepancy that will have to be explained next week when we publish.

The transaction will also require Barclays Bank to overdraft its account with us for the \$47 billion early in the day tomorrow ([REDACTED]). Barclays Bank will lend this amount intraday to BCI to pay down its overdraft at JPMC that results from the unwind of triparty repo tomorrow. This will permit LBI to deliver the securities free of payment to BCI. BCI will pledge them to the PDCF. The cash proceeds will pay back Barclays Bank's intraday overdraft.

A key risk factor is that JPMC will try to use the \$47 billion in cash paid from Barclay's to pay down other Lehman Bros. obligations and refuses to release the collateral. This would be a disaster. BNYM and Barclays folks have been in contact with JPMC. I wonder if we should reach out to Barry Zubrow (or higher?) to make sure they behave tomorrow...what do you think? There's an awful lot at stake on many dimensions...

Please let me know asap if you have any questions or concerns about this arrangement. In particular--the \$47 billion daylight overdraft at Barclays, the extinguishing of the TSLF loans with monetary policy impact, the extinguishing of the OMO positions with balance sheet impact, and the risk that JPMC will not behave as anticipated. (Dina and Chris admirably defended our need to avoid monetary policy and balance sheet impact, but in the end we agreed that this approach had the most likelihood of success.)

There may be a better way to do this, but all parties were obviously very exhausted and getting this done tomorrow would clear the way for the bankruptcy filing and SIPC filing on Friday. If I made any mischaracterizations or failed to relay important information, I hope those who were there will chime in.

Lucinda

Barclays attendees: Gerard LaRocca (BCI chief administrative officer), David Petrie (BCI finance), Ian Prior and Elena Matrullo (BCI chief credit officers), Alan Kaplan (BCI--deputy general counsel)

BNYM attendee: Art Certossimo

Lehman attendee: Ian Lowitt (sp?) (LBI cfo?)

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