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07/16/2008 10:40 AM

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Subject talking points for dimon kelly meeting 7 17

Tim

Here are the talking points we have developed for the meeting tomorrow w/Dimon and Kelly regarding near-term measures to enhance the stability of the triparty repo market. We will discuss these with you this morning from 11:30-11:45. I will bring copies.

Also attached is our plan and the talking points we have developed for our discussions with the dealers .

Lucinda



triparty repo talking points.doc dimon kelly 7 17.doc short term improvements to tri-party.doc

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Talking Points**Near-term Measures to Enhance the Stability of the
Triparty Repo Market**

Triparty Repo Borrowers (and their regulators)

1. Conditions in global credit markets remain fragile.
 - The Federal Reserve is strongly committed to supporting the stability and improved functioning of the financial system. We are currently monitoring developments in financial markets closely and considering several options with respect to the PDCF and TSLF, including extending the duration of these facilities for primary dealers beyond year end.
 - In this context, the Federal Reserve believes that market participants, specifically large, triparty repo borrowers, should begin taking incremental steps to improve the resilience of this critical market over the near term.
2. Over the next two quarters, triparty repo borrowers should develop and implement a plan to achieve a meaningful reduction in their reliance on overnight secured financing of assets that are not highly liquid, do not have a high degree of price transparency, or could experience high degrees of negative price volatility during a market stress event.
 - As we witnessed in the case of Bear Stearns, overnight secured financing can disappear suddenly when a firm undergoes a major stress event.
 - This concern is particularly acute for the collateral classes referenced above including equities and equity derivatives, corporate bonds, private label CMOs, asset backed securities, municipal bonds, commercial paper and whole loans—essentially all collateral that is not Fedwire-eligible.
 - These assets currently collateralize 25 percent of the \$2.5 trillion of aggregate triparty repo borrowing.
3. Reducing reliance on overnight financing for these assets will enhance the stability of this critical market in the following ways:
 - Reduces exposure of borrowers to rollover risk.
 - In the event of the default of a large borrower, the potential for systemic risk to materialize could be reduced. Potential propagators of systemic risk include:
 - a. Creditors of the defaulted borrower could initiate a fire sale of the less liquid assets resulting in steep losses not only for themselves, but for others holding similar assets who must mark to market.

degree of price transparency, as well as low price volatility. Although these measures will likely increase the cost of financing certain assets, all market participants will be served by reducing their direct vulnerability to loss of access to financing, as well as reduced vulnerability of being affected by the systemic consequences generated by a problem at another firm.

9. If you have specific questions, it would be very helpful to us to receive them in writing.