

From: Birney, Janet [jbirney@lehman.com]
Sent: Monday, May 5, 2008 8:13 PM (GMT)
To: Jones, Craig L [cljones@lehman.com]
Subject: RE: JPMC Review of Triparty and Government Clearing Call Summary- 5/2/08

Dave and team. Larry's big sticking point. I am happy if you just want to respond.

> _____
> From: Jones, Craig L
> Sent: Monday, May 05, 2008 4:11 PM
> To: Birney, Janet
> Subject: RE: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
> ?? - who wants access to what?
>
> _____
> From: Birney, Janet
> Sent: Monday, May 05, 2008 4:10 PM
> To: Jones, Craig L
> Subject: RE: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
> He wants access.
>
> _____
> From: Jones, Craig L
> Sent: Monday, May 05, 2008 4:09 PM
> To: Birney, Janet
> Subject: RE: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
> I will have Janice check on the DOD - it should just be the reverse of
> what the increase was when they applied the new charge. I also want
> to do an analysis what we think the NFE impact will be now that the
> intraday margin is not 2%.
>
> Are you going to clarify your note? My main concern is that Lohuis
> now has several people working on DOD and they have been looking for
> Chase to provide more information on DOD and I don't want them
> thinking this is it. I don't know why but they mentioned (last week)
> they were under the impression that Chase would be providing a new
> screen or reporting on DOD. Neither Janice nor I understood where
> they got that impression.
>
> Sorry I missed the meeting.
>
> Thanks,

> Craig
>
>
> _____
> From: Birney, Janet
> Sent: Monday, May 05, 2008 3:58 PM
> To: Jones, Craig L
> Subject: RE: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
> Okay you got me- I did leave my notes home. You missed the call this
> morning JP is still convinced the Triparty number is higher need to
> determine where the 2% comes in. Like I mentioned not sure how
> specific they were in Feb.
>
> Are you having Janice review the DLOD?
>
> Thanks,
> Janet
>
> _____
> From: Jones, Craig L
> Sent: Monday, May 05, 2008 3:07 PM
> To: Birney, Janet
> Subject: RE: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
> Janet - not sure if you want me to reply or you just want to revise
> but the CRED screen that JPM is willing to provide relates to NFE and
> not DOD. This screen will give us real time NFE availability. Also,
> JPM is now stating that the NFE debit from the intraday margining will
> be based on the previous night margin locked up for our counterparties
> rather than 2%. We had previously been under the impression that it
> was only based on 2% margin but they made clear that was just for
> illustration. They noted they need to review this further since the
> number they retrieved while we were in the meeting was ~1.5% which
> everybody recognized was too low.
> Thanks,
> Craig
>
> _____
> From: Birney, Janet
> Sent: Monday, May 05, 2008 2:54 PM
> To: Fleming, Dan (TSY); Jones, Craig L; Feraca, John; Palchynsky,
> John N; Fondacaro, Jack; Servidio, Lawrence P; Ullman, Neal (NY)
> Cc: Boyle, Julie; Cornejo, Emil; Tonucci, Paolo
> Subject: JPMC Review of Triparty and Government Clearing Call
> Summary- 5/2/08
>
>
>
> Lehman Attendees: Jack Fondacaro, Craig Jones, John Palchynsky, Dan
> Fleming, John Feraca
> JPMC Attendees: Ed Corral , Jon Ciciola, Mark Doctoroff, Darren
> Measures, Michael Scarpa
>
> Purpose: Recent Market Changes have prompted JPMC to reevaluate the
> risk associated with the Triparty product. JPMC requested the meeting

- > to discuss where they are headed and how their risk department is
- > looking at the business (prompted by discussions with the FED). In
- > addition, back in February JPMC proposed fee reductions for Government
- > Clearing and Triparty that equated to ~\$1.4 million. Lehman requested
- > further analysis to see if they could provide upside protection.
- >
- > JPMC was very clear that the meeting was a product specific issue and
- > they wanted to be upfront with Lehman. JPMC assured us that they had
- > no intention of hindering our business.
- >
- > Agenda:
- >
- > 1) Clearance and Tri-party Collateral Management fee reductions:
- >
- > JPMC is proposing Triparty pricing at .45bps (same as in their Feb
- > proposal) on total collateral value but has agreed to further tiering
- > on Government clearing which JPMC estimates will equate to a \$3.1mm
- > annual save:
- > * 1-150,000 trades: \$1.25
- > * 150,001-300,000: \$1.00
- > * >300,000: \$0.75
- >
- > Discussed increase year on year of Triparty collateral value which has
- > recently dropped back down. Asked JPMC to look at trades where they
- > are the counterparty to determine if perhaps lower pricing should
- > apply (push coming from Dave Lohuis). Also asked if they could
- > back-value saves based on initial discussion in February.
- >
- > Next steps: Lehman to analyze fees and revert back.
- >
- >
- > 2) Schedule 1: Collateral and haircut changes for Lehman end-of-day
- > "box" loans
- >
- > JPMC provided collateral schedule that their risk group will accept
- > for " box loans". The schedule excludes various asset classes. Lehman
- > explained that the schedule would be problematic and that the haircuts
- > were inconsistent with our schedules. Advised that our use of "box
- > loans" is not intentional and explained that the current process only
- > allows us to determine what is eligible late in the evening. JPMC
- > assured us that they would continue to be lender of last resort.
- >
- > Next steps: Lehman to review schedule and propose changes. JPMC will
- > take today's discussion to senior management.
- >
- > 3) Changes to the Intra-Day Margining process and the impact on
- > Lehman's NFE
- >
- > Back in February JPMC proposed incremental holding back 2% of the
- > margin on collateral as a counter debit to the Net Free Equity (NFE)
- > calculation intraday, e.g. - for an asset at 102 they would keep the
- > 2. Prior to the collapse of Bear Stearns they did this for 20% of our
- > collateral. They are now mandating that we get to 100% by the end of
- > June. Lehman is concerned about the potential impact to NFE.
- >
- > Next Steps: JPMC to work with Lehman to understand the impact. Confirm

- > that 2% is the average haircut as general impression is that is too
- > small.
- >
- > 4) Daylight Overdraft
- > In response to the request to further reduce fees JPMC has agreed to
- > lower our DLOD charge from 13.5 bps to 12. Per JPMC the save is ~\$96k
- > monthly or ~\$1.1 million a year. Lehman responded that DLOD was
- > important for us and that we would like a way to monitor the usage on
- > our side. JPMC has a screen that they are ready to roll out that would
- > provide this information.
- >
- > Next Steps: Hold workshops with JPMC to rollout DLOD screen in
- > addition to having them help us investigate and reduce the overall
- > cost. Lehman to verify save calculation.
- >
- > Note: This makes the total save from the proposals above approx. \$4
- > million or 20%.
- >
- > 5)UK Credit facility
- > JPMC explained that there was concern with the way the Triparty
- > program in Europe worked as the intraday exposure on substitutions is
- > \$2 billion unsecured. This has Senior Management attention and is
- > something that they are working with other clients to explore work
- > arounds.
- >
- > Next Steps: JPMC to meet with London team to discuss concerns,
- > potential solutions, and impact.
- >
- > Please let me know if I missed anything or if you have any questions.
- >
- > Regards,
- > Janet
- >