

From: Jones, Craig L [cljones@lehman.com]
Sent: Monday, May 5, 2008 10:38 PM (GMT)
To: Birney, Janet [jbirney@lehman.com]; Fleming, Dan (TSY) [dfleming@lehman.com]; Feraca, John [joferaca@lehman.com]; Palchynsky, John N [jpalchyn@lehman.com]; Fondacaro, Jack [jfondaca@lehman.com]; Servidio, Lawrence P [lservid@lehman.com]; Ullman, Neal (NY) [Neal.Ullman@lehman.com]
Cc: Boyle, Julie [julie.boyle@lehman.com]; Cornejo, Emil [emil.cornejo@lehman.com]; Tonucci, Paolo [paolo.tonucci@lehman.com]
Subject: RE: JPMC Review of Triparty and Government Clearing Call Summary- 5/2/08

Please note that the screen referenced below is a real time monitoring tool to view our NFE and not DOD. In addition, JPM clarified that the intraday margining that will be charged against NFE will be the amount of haircut that was applied for all the triparty trades the previous night and not fixed at 2%.

Craig

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> 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
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> Lehman Attendees: Jack Fondacaro, Craig Jones, John Palchynsky, Dan Fleming, John Feraca
> JPMC Attendees: Ed Corral, Jon Ciciola, Mark Doctoroff, Darren Measures, Michael Scarpa
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> 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.

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- > Agenda:
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- > 1) Clearance and Tri-party Collateral Management fee reductions:
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- > 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%.
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- > 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.
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- > Next Steps: JPMC to meet with London team to discuss concerns,
- > potential solutions, and impact.
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- > Please let me know if I missed anything or if you have any questions.
- >
- > Regards,
- > Janet
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