

From: Tonucci, Paolo [paolo.tonucci@lehman.com]
Sent: Friday, February 29, 2008 1:20 PM (GMT)
To: Birney, Janet [jbirney@lehman.com]; Fleming, Dan (TSY) [dfleming@lehman.com]; Ullman, Neal (NY) [Neal.Ullman@lehman.com]; Fondacaro, Jack [jfondaca@lehman.com]; Cornejo, Emil [emil.cornejo@lehman.com]; Feraca, John [joferaca@lehman.com]; Palchynsky, John N [jpalchyn@lehman.com]
Cc: Boyle, Julie [julie.boyle@lehman.com]; Jones, Craig L [cljones@lehman.com]
Subject: RE: JPMC US Clearance Collateral Review- Call Summary

Janet,

When are they due to come back on our requests around tiering? I also think we need to be clear that the market risk proposal would be problematic - it sounds like a blunt tool being used to address a very complex issue.

Paolo

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> From: Birney, Janet
> Sent: 26 February 2008 17:19
> To: Fleming, Dan (TSY); Ullman, Neal (NY); Fondacaro, Jack; Cornejo, Emil; Feraca, John; Tonucci, Paolo; Palchynsky, John N
> Cc: Boyle, Julie; Jones, Craig L
> Subject: JPMC US Clearance Collateral Review- Call Summary
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> JPMC Attendees:
> Jon Ciciola, MD Broker Dealer Services
> Mark Doctoroff, Relationship Manager
> Ray Stancil, Broker Dealer Operations (via phone)
>
> Lehman Attendees:
> Emil Cornejo, Relationship Manager
> Jack Fondacaro, Operations
> Janet Birney, Network Management
>
> Regrets: John Feraca, Neal Ullman
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> Background: JPMC requested the meeting which had two purposes: 1)
> Relationship Appreciation and 2) Market Risk
>

- > 1) Relationship Appreciation:
- > In recognition of our overall relationship and continued increase in
- > business growth, Jon offered to reprice our government clearing and
- > Triparty business.
- >
- > Proposal:
- > 1. Eliminate the current tiering of trades <50,000 a month so that
- > all trades are priced at \$1.25.
- > 2. Reduce the bps charge on Triparty collateral from .50 to .45.
- > Based on 2007 levels, this equates to an annualized save of ~\$1.4
- > million.
- >
- > 2007 Cost Savings Percentage
- > Government \$8,900,000 \$525,000 5.90%
- > Triparty \$8,500,000 \$858,125 10.10%
- > Total \$17,400,000 \$1,383,125 7.95%
- >
- > Response:
- > Based on increases of 11% and 14% year over year, we asked if they
- > could look to add further tiers for each business for improved upside
- > protection.
- >
- > 2) Market Risk:
- > The recent market turmoil has prompted the Fed to question JPMC on the
- > viability of Triparty financing in the event of broker dealer default.
- > The senior management team (up to and above Heidi Miller) have focused
- > a great deal of effort on this initiative. They have spent
- > considerable time analyzing hard-to-price collateral and have looked
- > at scenarios for both overnight and intraday.
- >
- > Proposal:
- > JPMC will hold back the margin on the collateral as a counter debit to
- > the Net Free Equity (NFE) calculation, e.g. - for an asset at 102 they
- > would keep the 2. The rationale being if this methodology is applied
- > to all asset classes, the risk of a misprice would be offset by a more
- > liquid asset. JPMC said this was not something they would implement
- > "big bang" but could be done incrementally. It is their understanding
- > that BONY does this currently. The implementation timeline would be
- > over the next 5-6 weeks.
- >
- > Response:
- > Lehman reiterated the importance of NFE and the continued concern
- > internally about the cost of Daylight Overdraft. We asked specifically
- > for JPMC to share the analysis on this so we could assess the impact
- > from a cost and processing standpoint.
- >
- > Next Steps:
- > * JPMC to provide analysis early next week of impact based on what
- > we are putting through Triparty this week.
- > * Engage the appropriate Lehman team to evaluate the assessment
- > and overall impact (Dan Fleming, etc).
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- > Janet Birney
- > Senior Vice President

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- > Treasury-Global Head of Network Management
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