

From: Fondacaro, Jack <jfondaca@lehman.com>
Sent: Monday, March 17, 2008 5:43 PM (GMT)
To: Birney, Janet <jbirney@lehman.com>; Fleming, Dan (TSY) <dfleming@lehman.com>; Ullman, Neal (NY) <Neal.Ullman@lehman.com>; Cornejo, Emil <emil.cornejo@lehman.com>; Feraca, John <joferaca@lehman.com>; Tonucci, Paolo <paolo.tonucci@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

All,
Chase just notified us that they will begin charging us intra day margin (20% of the 2%). In light of the market conditions, they are not waiting to implement their plan as they mentioned at our last meeting.

Jack Fondacaro
Lehman Brothers, Inc.
tel: 201-499-8428
fax: 646-758-3091
email: jfondaca@lehman.com

>
> _____
> From: Birney, Janet
> Sent: Tuesday, February 26, 2008 5:19 PM
> 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
>
>
>
>
> 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
>
>

> 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).

>

>

>

> Janet Birney

> Senior Vice President

> Lehman Brothers

> Treasury-Global Head of Network Management

> 1301 Avenue of the Americas- 6th Floor

> New York, NY 10019

> Phone: 212-320-4489

> Fax: 212-548-9525

>
>