

From: Jones, Craig L <cljones@lehman.com>
Sent: Tuesday, February 26, 2008 11:13 PM (GMT)
To: Fleming, Dan (TSY) <dfleming@lehman.com>
Subject: RE: JPMC US Clearance Collateral Review- Call Summary

Dan- debiting the NFE for the margin will be a problem. Historically our NFE averaged \$5-7bn but my understanding is this has been reducing lately as HIC has reduced. We have hit our NFE limit several times over the last few weeks which stops our clearance until we send cash down to Chase. Our margin from triparty is probably ~\$4bn. The RTA margin calculation is not calculating the amount correctly so I am just taking 2% of the \$200bn book. This would obviously be the Treasury only spread and all the other asset classes would have wider margins. We are putting together the actual margin now. I also requested for Chase to begin providing the daily NFE snapshot so we can get a better estimate of our current position.

Craig

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> 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
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> JPMC Attendees:
> Jon Ciciola, MD Broker Dealer Services
> Mark Doctoroff, Relationship Manager
> Ray Stancil, Broker Dealer Operations (via phone)
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> Lehman Attendees:
> Emil Cornejo, Relationship Manager
> Jack Fondacaro, Operations
> Janet Birney, Network Management
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> 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
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> 1) Relationship Appreciation:
> In recognition of our overall relationship and continued increase in
> business growth, Jon offered to repricce 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.
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- > 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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- > Lehman Brothers
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