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### Exhibit Materials for Briefing by the Staff Umbrella Group on Financial Stability

Federal Reserve System: Board of Governors: Staff Umbrella Group on Financial Stability

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**Restricted-Controlled FR**

*Material for*

**Briefing by the Staff Umbrella Group on Financial  
Stability**

September 24, 2007

**Exhibit 1**

The Structure of Today's Briefing

Roberto Perli:  
Financial Markets and Institutions

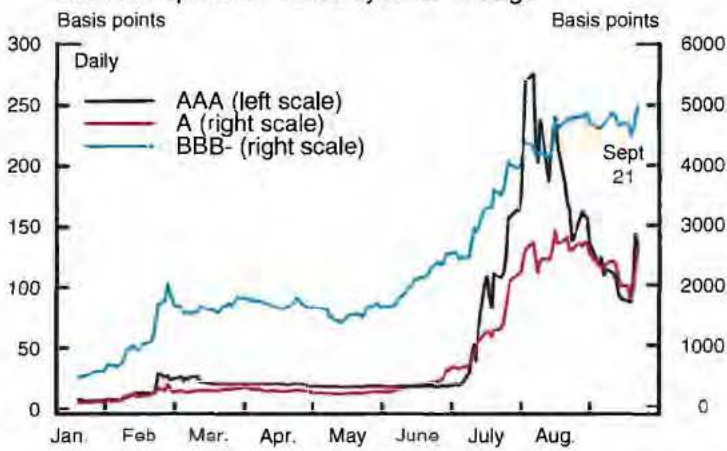
Dianne Dobbeck:  
Supervisory Work on Large Bank Exposures

Pat White:  
Effects of Market Volatility on Infrastructure and  
Lessons on CCP Stress Testing Practices

**Exhibit 2**  
Financial Markets

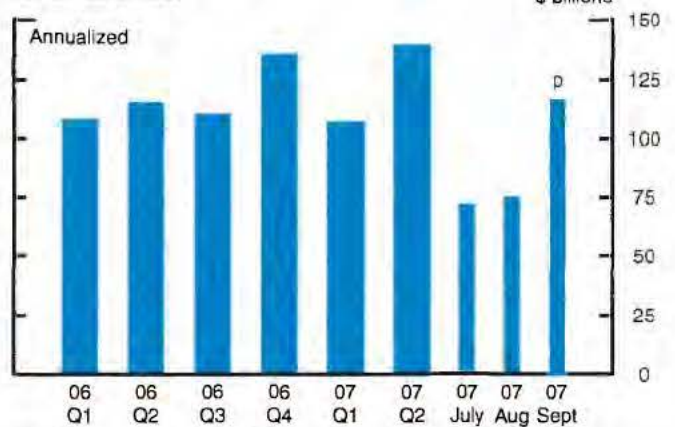
- After a quiet spring, many global financial markets became unsettled and illiquid in the summer.
- Several financial variables, including term spreads, some credit spreads, and implied volatilities moved up sharply and at the same time.
- The functioning of some markets, including nonconforming mortgage, leveraged loan, commercial paper, and other short-term funding markets was severely impaired.
- Although liquidity in several markets has showed signs of improvement in recent days, global financial market conditions are still quite far from normal.

ABX.HE spreads - January 2007 vintage



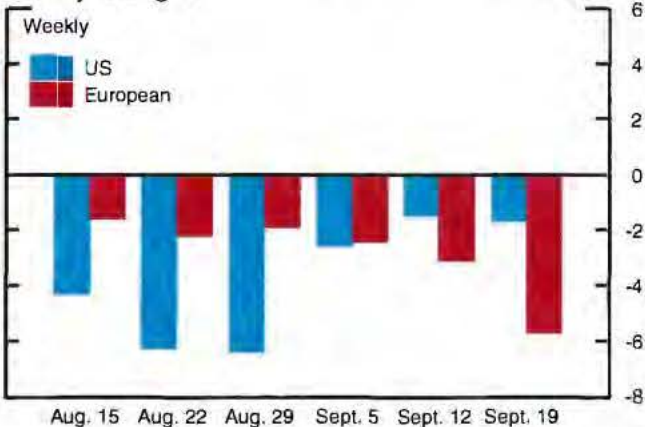
Source: JP Morgan.

CLO issuance

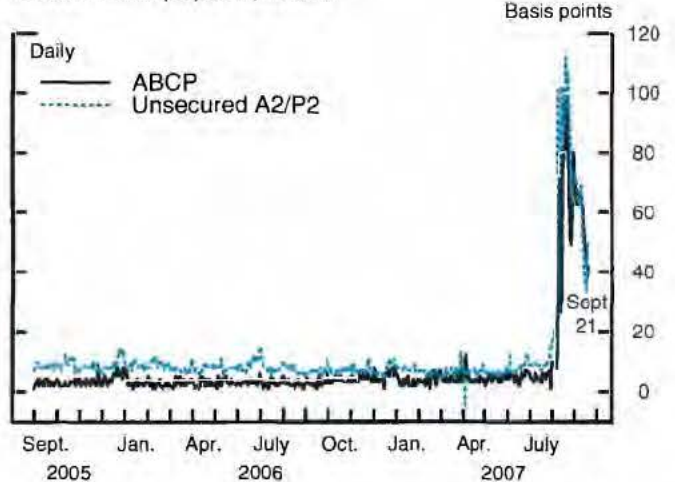


p Projected for the whole month using data through September 14.  
Source: JPMorgan.

Asset-backed commercial paper outstandings, weekly changes

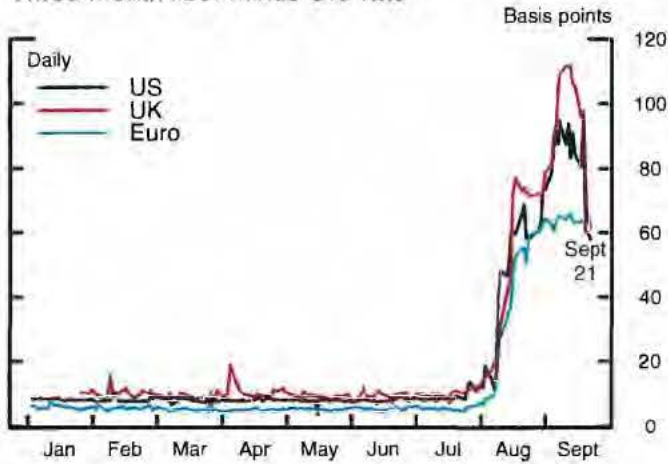


Commercial paper spreads



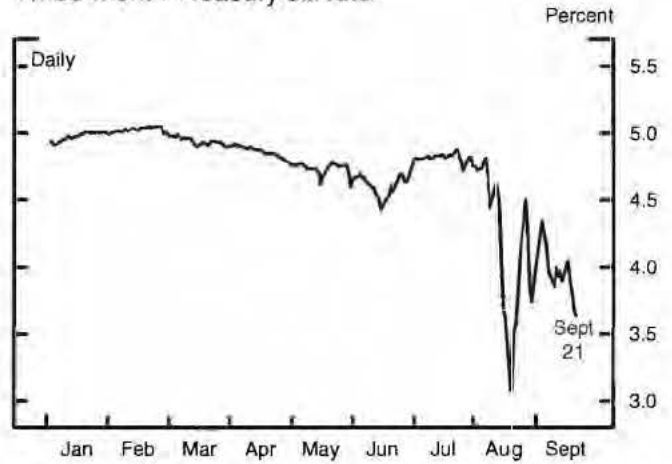
**Exhibit 3**  
Financial Markets and Policy Responses

Three-month libor minus OIS rate



Source: Bloomberg.

Three-month Treasury bill rate



Other market functioning

- Liquidity premiums and bid-ask spreads on Treasury securities widened moderately and trading volumes were elevated.
- Bid-ask spreads on corporate bonds widened some and liquidity strains in CDS also emerged.
- Equity markets were volatile and implied volatility spiked.

Policy actions

- A number of policy actions were implemented by the Fed and other central banks.
- Moves aimed at market functioning reduced pressures in overnight markets but not in term funding markets.
- Markets appear to have reacted favorably to the cut in the target rate.

Daily average primary credit borrowing

	<u>Aug. 16-Sept. 20</u>	<u>Jan. 1-Aug. 16</u>
<b>Total outstanding (\$ mil.)</b>	<b>1762</b>	<b>51</b>
Term borrowings by large DIs	1326	N/A
Overnight*	436	51
<b>Number of borrowers**</b>	<b>8.2</b>	<b>2.9</b>
Large commercial banks***	4.3	0.3
Branches of foreign banks	0.7	0.3
Other depositories	3.2	2.3
 <b>Memo: Total discount window collateral (\$ bil.)</b>	 <b>882</b>	 <b>755</b>
	<b>(as of Sept. 21)</b>	<b>(as of Aug. 1)</b>

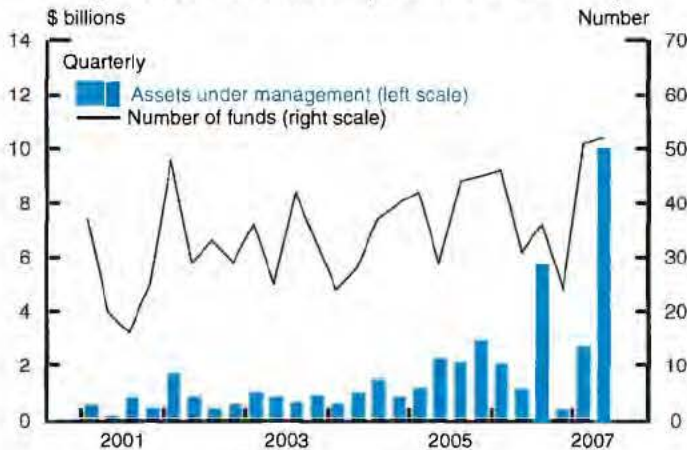
\*Includes term borrowings by small DIs that are ordinarily permitted to borrow for up to a few weeks.

\*\*Includes both term and overnight borrowers.

\*\*\*Total domestic assets greater than \$10 billion.

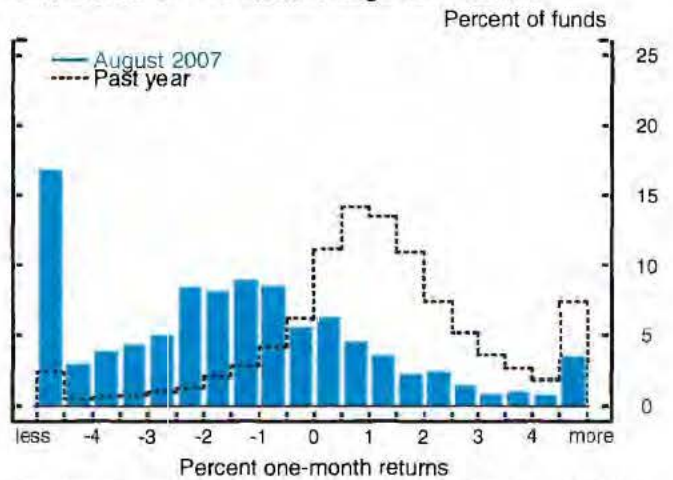
**Exhibit 4**  
Financial Institutions

Hedge funds that ceased operations involuntarily



Note. Staff estimates based on TASS dataset.

Distribution of one-month hedge fund returns\*

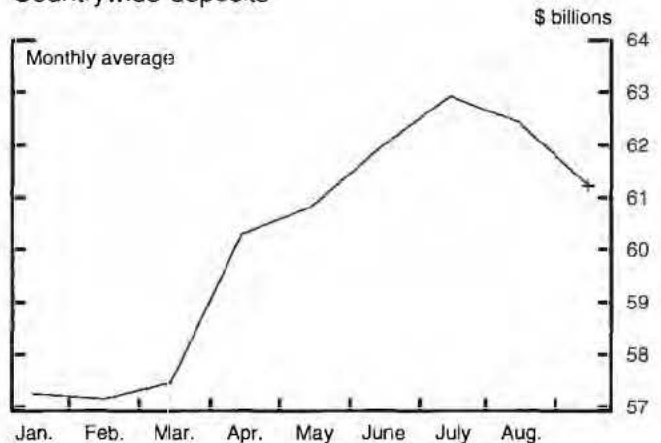


\*Includes all funds reporting returns in US dollars and net of fees. Most recent month includes only funds that have reported to date. Past year is the average monthly distribution.

Mortgage lenders

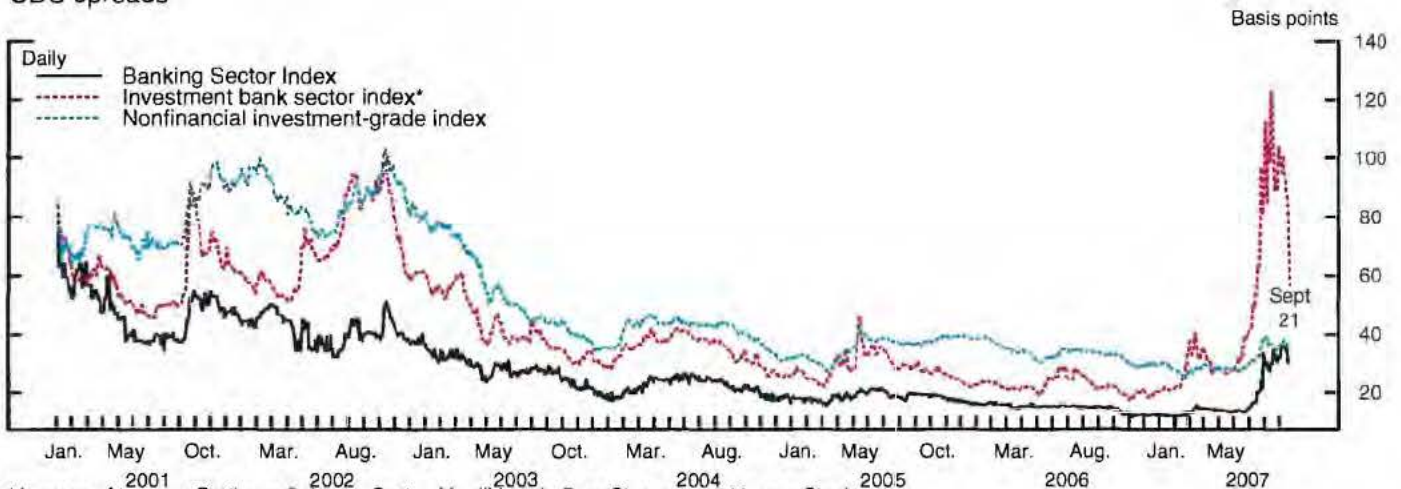
- Dozens of lenders have closed or filed for bankruptcy.
- Large banks have curtailed nonconforming lending and are healthy.
- Countrywide experienced substantial funding difficulties and is now funding loans at its thrift subsidiary.

Countrywide deposits



+ Data are as of September 17.

CDS spreads



\*Average of Lehman Brothers, Goldman Sachs, Merrill Lynch, Bear Stearns, and Morgan Stanley.  
Source. Markit.

**Exhibit 5**

Impact of Market Illiquidity on Core Financial Institutions

(b) (8)



**Exhibit 6**

Balance Sheet Capacity

(b) (8)





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**Exhibit 7**  
Robustness of the Infrastructure

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Settlement volumes

Price volatility and strong trading volume resulted in large settlement payments in July and August.

Almost every provider of clearing and settlement services to exchanges experienced record, or near record, volumes of trades and payments.

OTC derivatives also grew rapidly across product categories.

Operational performance

Very few operational problems have been experienced to date.

There were some exceptions:

(b) (8)



(b) (8)



**Exhibit 8**

Robustness of the Infrastructure

(b) (8)



Stress testing to assess financial capacity to withstand shocks

Used to evaluate a system's resiliency to extreme market conditions.

Key choices are assumed price shock and assumed number and size of participants defaulting.

(b) (8)

