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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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
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.
Financial Markets and Policy Responses

Three-month Libor minus OIS rate

Source: Bloomberg.

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

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

*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.
Hedge funds that ceased operations involuntarily

Distribution of one-month hedge fund returns*

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

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
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)
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.