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FRBNY Email White to Weisz et al re On-Site Primary Dealer Update

Amy White

Amy White/NY/FRS

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To

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Subject

On-site Primary Dealer Update: September 19

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Primary Dealer Updates

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MORGAN

Liquidity Pool: Estimated to be $54.7 billion COB today, down from $64 billion yesterday.
Prime Brokerage: *(Preliminary)* Globally, $22 billion in outflow requests today.
International: Net payments out today are estimated at approximately $8 billion (actual net payments out yesterday were $3.8 billion). Morgan also paid out $2 billion of Client Money Protected balances.
Collateral: Will have approximately $17 billion posted at various institutions COB today.
Counterparty Issues: UK: Significant increase in issues with agent banks and unsecured lenders today and yesterday.

MERRILL

Liquidity Pool: Estimated to be $32.9 billion at COB today, which is down $4 billion from yesterday.
Secured Funding
New York: $1 billion in whole loans, $1.5 billion in HY, and $1.3 billion in AMPs did not roll.
London / Europe
ING Belgium stopped equity repo trading.
Dexia did not roll $500 million in non-investment grade ABS, however, it did finance an equity repo for $700 million.

GOLDMAN

Liquidity Pool: $57 billion yesterday, down $25 billion from Wednesday.
US Bank: Lost $1.25 billion yesterday ($3.78 billion total loss since Monday). Expect another $500 million loss today.
Collateral: $4 billion of incremental margin posted to **OCC** (Options Clearing Corp).
Prime Brokerage: $12 - $14 billion in outflows yesterday.

Comments Submitted by CPC Teams
(Thanks to Craig Leiby for compiling the following)

HSBC

HSBC Plc placed **Morgan**, **Goldman**, and **Merrill** CREST settlement accounts on a cash basis or required a cash deposit to support clearing activities in lieu of daylight overdraft lines. Goldman deposited $1 billion to support its clearing activities.
HSBC continues to decline requests to novate derivatives trades away from securities firms because of the burden this would place on its back office.

Citi

Citi reduced global clearing lines to **Morgan** from $21 billion to $5 billion and is asking **Morgan** to deposit $5 billion in a cash collateral account. **Merrill's** unsecured intraday credit line for clearing with Citi is now $5 billion.
Morgan is the "deer in the headlights" and having significant stress in Europe; it's looking like **Lehman** did a few weeks ago. Morgan is short GPB600 with Citi, as **HSBC** is refusing to release the funds. Expect Morgan to provide cash today to cover the position. Currently have $1.2 billion in segregated deposits for Morgan, want to move up to the $5 billion range. Clearing lines are currently in the $5.5 - 6 billion range, but constant reassessment of those lines. May depend on what happens with the deposits. Want cash in hand before taking on settlement risk.
Bank Handlowy refused to clear for **Goldman** without a guarantee from **Citibank NA**, resulting in a $300 million fail. Citi posted a LoC for the amount to try to move the securities. May clear the $300 million through bilateral exchanges to keep the fail out of the press. This decision by Bank Handlowy was inconsistent with treatment of Goldman in the rest of Citi. There may be some Reg K issues - Citi is currently looking at possible consequences.
Many of **Morgan** Prime clients are opting to move out of Morgan and into more conservative alternatives. Citi is expecting to see an increase in their cash management business, even in their custody business. It was conveyed to Citi that **Goldman** and Credit Suisse are actively pursuing **Morgan's** Prime business clients.
The volume of new PB clients moving to Citi from the two remaining free-standing B/Ds is not

allowing staff to follow its due diligence processes relating to client strategy and collateral.

<u>JPMC</u>

JPMC picked up more money from the IBs yesterday, but acknowledged that flows have slowed. To protect itself from novations and PB movements away from **Morgan** and **Goldman**, JPMC obtained agreements that **Morgan** and **Goldman** provide $750 million and $500 million collateral, respectively.

At a recent Board Meeting, executives agreed that it would be extremely difficult to address a "**Morgan**" wind-down.

<u>BNYM</u>

Management continues to monitor daylight overdrafts and reduced discretionary exposures to **Morgan**. The bank's approach to **Goldman** exposures was characterized as "softer ", i.e., a communication plan has been put into place to ensure that **Goldman**'s behavior is consistent with the bank's risk appetite.

Management would like consideration for a retroactive agreement to have interest paid on its deposits in its reserve account.

<u>Credit Suisse</u>

The bank experienced $7 billion in new PB funds yesterday, anticipates a similar volume today, and expects $9 billion will come on board over the next few days. Management noted that PB balances have expanded beyond those from **Morgan** to include all dealers. To manage the inflow, CS is initially completing a standard plain-vanilla Reg T document for each new account, but intends to follow up with more detailed documentation.

CS continues to monitor **AIG, Morgan, Goldman Sachs,** Citi**, Merrill Lynch, and** WaMu.

<u>UBS</u>

Payment filters are in place with **Morgan** and **Goldman** to monitor free delivery. They are also considering risk reducing trades. For **Morgan**, anything over $25 million requires prior credit approval.

PB flows, although probably net up, have gone in both directions: in last week (Lehman, **Merrill**), out earlier this week (bad UBS news), and in more recently (**Morgan**).

<u>State Street:</u> Fund redemptions accelerated yesterday, surpassing the previous day's high volumes. **Goldman** had $10 billion in redemptions. **Merrill** had $4 billion.

RBS: RBS is closely tracking credit exposures for Lehman, **Goldman**, **Merrill**, **Morgan**, Wachovia, WaMu and AIG. It is carefully vetting requests for assignments from the investment banks, making sure the specific assignments taken fit their book.

SG: SG is closely monitoring **Morgan** transactions. **Morgan** was restored to automatic status from manual yesterday.

<u>Deutsche:</u> Management continues to have heightened concerns with the settlement risk from **Morgan** novations, particularly given that some of these go beyond the standard T+ 2 days. Although the $1 billion deposit at Deutsche mitigates this settlement risk, Deutsche feels it may be exposed to legal challenges in a bankruptcy situation. To date, the positive value of the unsettled trades is a little less than half of the value of the **Morgan** deposit, but management believes that today's "triple witching" Friday activities will likely increase the exposure.

<u>Barclays</u>

Barclays is watching **Morgan** and **Goldman**, not because they are concerned about them, but because they are getting "picked on" in the market.

Stress testing for **Morgan** showed no significant losses: $30 million on structured books, and $50 million on flow books.

<u>Triparty</u>

The triparty books at **Morgan** and **Goldman** were relatively straightforward yesterday vis-a-vis the prior day. **Morgan**'s book, which had some shifting in OMO-eligible assets, declined $10 billion to $198 billion. **Goldman**'s book was up $7 billion to $129 billion, mostly due to an increase in Treasuries.

<u>Securities Lending</u>

Several securities lenders have announced that they will no longer allow certain financial equities, such as **Goldman** and **Morgan**, to be lent out to help stem short selling activities. The current list includes The California Public Employees' Retirement System (the largest U.S. pension fund), the New York State Common Retirement Fund, the California State Teacher Retirement System, and the Commonwealth of Pennsylvania.