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SEC Matthew Eichner Email to James Giles et al re Upton/Farber call

Matthew Eichner

That cover it Jim?

From: Eichner, Matthew
Sent: Wednesday, January 30, 2008 8:54 AM
To: Giles, James; Spurry, Steven; Silva, Kevin
Cc: Hsu, Michael
Subject: Upton/Farber Call

Hi,

I got a cryptic email from Upton last night, asking for a call (with me alone) for 7:45 this morning.

Turns out they had a screw up over the last few days which brought the holding company liquidity pool below $5 billion. You'll recall that, many moons ago, Farber undertook to tell us should that occur as part of our global arrangement with the FSA.

More concerning, overall liquidity did decline sharply over the last week from about $16 billion on January 17 to $9.3 billion last Friday ($4.8 at the parent) and $8.8 billion ($4.3 at the parent) on Monday. Yesterday they were back to $9.9 billion ($5.3 billion at the parent). On Friday, they'll see the proceeds from the issuance yesterday of $3 billion in ten year debt, done at L + 302.

The drivers of the deterioration were big 15c3-3 deposits ($2.5 billion on 1/23) and inventory growth (~$4.8 billion in BSIL).

Upton committed to several steps. First, they'll provide a detailed post mortem on why this occurred. Second, they are establishing a new function in Treasury to project cash needs at the legal entity level. Upton said that the problem here was in large measure the lagging of the secured funding initiative in Europe. Finally, I've asked for daily reporting (via email) on holding company liquidity going forward. I stressed that this was a big deal for us, that they fell below $5 billion as well as the general deterioration in liquidity.

I asked explicitly about new liquidity exposure to the monolines or exposure we had not discussed, in particular through "collateral swap agreements". Both Farber and Upton knew nothing about this, and said it was pretty much inconceivable to them that BSC would providing liquidity to monoline insurers.

-matt