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7-1-2008

### Federal Reserve Bank Email from Joseph Sommer to Patrick M Parkinson Re another triparty option

Joseph Sommer

Patrick M. Parkinson

William Brodows

Antoine Martin

<https://elischolar.library.yale.edu/ypfs-documents/5537>

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**From:** [Joseph Sommer](#)  
**To:** [Patrick M Parkinson](#)  
**Subject:** Re: another option we should present re triparty?  
**Date:** 07/13/2008 12:39 PM

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I agree, if you are willing to fund the firm indefinitely, and maybe enter the private equity business. The question, in my mind, is whether we will be perceived as a credible investor by counterparties and employees. If so, the only question is going-concern value

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Sent from my BlackBerry Handheld.

▼ [Patrick M Parkinson](#)

----- Original Message -----

**From:** Patrick M Parkinson  
**Sent:** 07/13/2008 12:35 PM EDT  
**To:** Joseph Sommer  
**Cc:** Antoine Martin; Arthur Angulo; Brian Begalle; Catherine Kung; Chris McCurdy; HaeRan Kim; Jamie McAndrews; Jan Voigts; Lawrence Sweet; Lucinda Brickler; Meg McConnell; Michael Schussler; Morten Bech; Sandy Krieger; Terrence Checki; Thomas Baxter; Til Schuermann; William BRODOWS; William Dudley

**Subject:** Re: another option we should present re triparty?

But the point of our PDCF lending would be to head off a massive run. Perhaps in a world where "headline risk" is an important concern a run would still occur. But if so we would end up lending at the end of the day an amount that still would be no higher (and could be far smaller) than what others seem to want to commit to lend at the beginning of the day. I assume that our judgment that an institution is sound refers to its going concern value, not its fire sale value.

Pat

▼ [Joseph Sommer/NY/FRS@FRS](#)

**Joseph  
Sommer/NY/FRS@FRS**

07/13/2008 11:21 AM

To: William BRODOWS/NY/FRS@FRS, Antoine Martin/NY/FRS@FRS, Patrick M Parkinson/BOARD/FRS@BOARD, Lucinda M Brickler/NY/FRS@FRS  
cc: Arthur Angulo/NY/FRS@FRS, Brian Begalle/NY/FRS@FRS, Catherine Kung/NY/FRS@FRS, Chris McCurdy/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS, Jamie McAndrews/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS, Lawrence Sweet/NY/FRS@FRS, Meg McConnell/NY/FRS@FRS, Michael Schussler/NY/FRS@FRS, Morten Bech/NY/FRS@FRS, Sandy Krieger/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, William Dudley/NY/FRS@FRS

Subject: Re: another option we should present re triparty? 

I only wish. Balance-sheet capital isn't too relevant if you're suffering a

massive run. And capital is the difference between two large numbers-- sensitive to asset value fluctuations.

I suppose this is where we come in. If we indeed do come in.

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Sent from my BlackBerry Handheld.

▼ William BRODOWS

----- Original Message -----

**From:** William BRODOWS

**Sent:** 07/13/2008 11:19 AM EDT

**To:** Antoine Martin; Patrick Parkinson; Lucinda Brickler

**Cc:** Arthur Angulo; Brian Begalle; Catherine Kung; Chris McCurdy; HaeRan Kim; Jamie McAndrews; Jan Voigts; Joseph Sommer; Lawrence Sweet; Meg McConnell; Michael Schussler; Morten Bech; Sandy Krieger; Terrence Checki; Thomas Baxter; Til Schuermann; William Dudley

**Subject:** Re: another option we should present re triparty?

Given that Lehman has 32 billion in capital (which is also in liquid form), there are few scenarios over the next few weeks in which one could contemplate an intra-day determination that they would become bankrupt.

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Sent from my BlackBerry Handheld.

▼ Antoine Martin

----- Original Message -----

**From:** Antoine Martin

**Sent:** 07/13/2008 10:07 AM EDT

**To:** Patrick Parkinson; Lucinda Brickler

**Cc:** Arthur Angulo; Brian Begalle; Catherine Kung; Chris McCurdy; HaeRan Kim; Jamie McAndrews; Jan Voigts; Joseph Sommer; Lawrence Sweet; Meg McConnell; Michael Schussler; Morten Bech; Sandy Krieger; Terrence Checki; Thomas Baxter; Til Schuermann; William BRODOWS; William Dudley

**Subject:** Re: another option we should present re triparty?

JPMC should be willing to unwind as long as we can commit to lend at the PDCF. If we cannot commit, they may be worried that by the end of the day, we would judge that LB is not solvent and then we could not use the PDCF.

Of course, in that case we would do something else to rescue LB, but the negotiating position of JPMC would be much weaker than in the morning, before they unwind.

Antoine  
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Sent from my BlackBerry Wireless Handheld

▼ Patrick M Parkinson

----- Original Message -----

**From:** Patrick M Parkinson

**Sent:** 07/13/2008 09:21 AM EDT

**To:** Lucinda Brickler

**Cc:** Antoine Martin; Arthur Angulo; Brian Begalle; Catherine Kung; Chris McCurdy; HaeRan Kim; Jamie McAndrews; Jan Voigts; Joseph Sommer; Lawrence Sweet; Meg McConnell; Michael Schussler; Morten Bech; Sandy Krieger; Terrence Checki; Thomas Baxter; Til Schuermann; William BRODOWS; William Dudley

**Subject:** Re: another option we should present re triparty?

I think this option is much too complex. To answer a question others

have asked, the biggest difference between today and when Bear lost access to financing is that the PDCF is in place. As long as we judge that LB is sound we should be willing to lend to it through the PDCF at conservative haircuts (as previously envisioned). With the PDCF in place there is no need to use JPMC as an intermediary.

And we should tell JPMC that with the PDCF in place refusing to unwind is unnecessary and would be unforgivable. It is unnecessary because even if JPMC is right that LB will have trouble rolling its repos with private counterparties we will provide the credit necessary to obviate any credit extensions to LB by JPMC. Failing to unwind would be unforgivable because it would force us to immediately lend an amount equal to the entire amount of LB's outstanding tri-party financing when private parties may be willing to continue to fund a significant portion, especially after we demonstrate that they are not vulnerable to a run because of our willingness to lend.

Pat

▼ Lucinda M Brickler/NY/FRS@FRS

**Lucinda M  
Brickler/NY/FRS@FRS**

07/12/2008 06:20 PM

To Chris.McCurdy@ny.frb.org, Patrick M Parkinson/BOARD/FRS@BOARD, Sandy.Krieger@ny.frb.org, Lawrence.Sweet@ny.frb.org, Arthur Angulo/NY/FRS@FRS, Til Schuermann/NY/FRS@FRS, William BRODOWS/NY/FRS@FRS, Jamie McAndrews/NY/FRS@FRS, Morten Bech/NY/FRS@FRS, Antoine Martin/NY/FRS@FRS, Michael Schussler/NY/FRS@FRS, Joseph Sommer/NY/FRS@FRS, Meg McConnell/NY/FRS@FRS, HaeRan Kim/NY/FRS@FRS, Catherine Kung/NY/FRS@FRS, Brian Begalle/NY/FRS@FRS, Jan Voigts/NY/FRS@FRS, William Dudley/NY/FRS@FRS, Terrence Checki/NY/FRS@FRS, Thomas Baxter/NY/FRS@FRS

cc

Subject another option we should present re triparty?

Perhaps another option we could offer Tim on triparty...

If JPMC refuses to unwind LB's triparty one morning out of fear of being caught with the entirety of this exposure when the music stops, by that evening they (and we) will likely have a much bigger problem to deal with as scores of investors pull away from triparty repo.

Instead of merely offering to take all of the risk to LB on our shoulders by stepping in as the intraday creditor (as the current proposal suggests), perhaps we just need to offer JPMC an outcome that is slightly more palatable.