From:	Coryann Stefansson
To:	Deborah P Bailey
Subject:	Fw: LFI Key Credit Risk Exposures to LEH - COB Update
Date:	09/11/2008 06:36 PM

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----- Forwarded by Coryann Stefansson/BOARD/FRS on 09/11/2008 06:34 PM -----

Brandon Hall/NY/FRS@FRS

09/11/2008 06:18 PM

To Dianne Dobbeck/NY/FRS@FRS, BSR LFIC, Caroline Frawley/NY/FRS@FRS, Clinton Lively/NY/FRS@FRS, Deborah P Bailey/BOARD/FRS@BOARD, Jeanmarie Davis/NY/FRS@FRS, John Ricketti/NY/FRS@FRS, Steven J Manzari/NY/FRS@FRS

cc Steven Mirsky/NY/FRS@FRS, Kyle Grieser/NY/FRS@FRS, William Hallacy/NY/FRS@FRS

Subject Fw: LFI Key Credit Risk Exposures to LEH - COB Update

As per Dianne's message below, the table following here captures LFI key credit risk exposures to LEH including Lending and Settlement alongside Trading. Data is sorted by Trading Potential Exposure.

Please note that in the body of the forwarded message below, updated commentary has been added to the Barclays note. In addition, the "LFI Counterparty Exposures to LEH" table has undergone slight revisions - including the addition of BNPP data - and should be treated as the most current version available.

LFI Credit Exposures to Lehman Brothers (USD or EUR Millions)

INSTITUTION	AS OF DATE	LENDING	TRADING		SETTLEMENT LIMITS
			Current Exp.	Potential Exp.	
Citigroup	09/10/08	$120	$207	$2,600	$3,200
JPMC	09/05/08	$686	$898	$2,381	$10,681
Barclays	09/08/08	$211	$30	$2,080	$4,284
CS	09/11/08	$68	$219	$1,385	n/a
BNPP	09/09/08	€ 408	€ 531	€ 691	n/a
UBS	09/09/08	n/a	$1,100	$1,200	n/a
BAC	09/08/08	$125	$139	$887	$4,012
SocGen	09/09/08	$0	$662	$776	n/a
Deutsche	09/10/08	$0	$0	$0	n/a

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----- Forwarded by Brandon Hall/NY/FRS on 09/11/2008 05:59 PM -----

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To BSR LFIC, Jeanmarie Davis/NY/FRS@FRS, John Ricketti/NY/FRS@FRS, Steven J Manzari/NY/FRS@FRS, Caroline Frawley/NY/FRS@FRS, Deborah P Bailey/BOARD/FRS@BOARD, Clinton Lively/NY/FRS@FRS

cc Brandon Hall/NY/FRS@FRS, Kyle Grieser/NY/FRS@FRS, Steven

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Subject LFI Counterparty Credit Risk Exposure to LEH

Please find the first of two distributions outlining the LFIs exposure to LEH. The matrix of below (prepared by Brandon Hall of the counterparty credit risk) outlines select LFIs counterparty credit risk exposure to LEH. As expected, risk coordinators have regular conversations with the LFIs regarding their exposures to financial firms so the data were obtained through normal channels with in many cases the LFIs raising the topic to the relevant CPC team. We've elected to keep this distribution small (that is not include all of the CPC teams) in an effort not to promote new inquiries / specifical requests of the teams to the firms. In a follow-up message, Brandon will share a table that captures additional exposures the LFIs may have to LEH (e.g. committed lines, settlement lines, etc.) We welcome any questions you may have regarding the data collected.

An updated snapshot of LFI CCR exposures (on potential and current exposure bases) to Lehman Brothers, as well as institutional commentary, is provided below.

Exposure Update

Barclays, Citigroup, and UBS have demonstrated an upward trend in potential exposure to Lehman since 2Q08. Meanwhile, risk appetite has trended downward at Credit Suisse, JPMC, BAC, and Deutsche.

LFI Counterparty Exposures to Lehman Brothers (Millions)

Institution	As of Date	Current Exposure	Potential Exposure	Potential Exposure (2Q08)	Potential Exposure Trend (from 2Q08)	Potential Exposure Type
Citigroup	09/10/08	$207	$2,600	$2,435	UP	PSLE
JPMC	09/05/08	$898	$2,381	$3,289	DOWN	CCR Exposure: Incl. Sec Financing, Repos, etc.
Barclays	09/08/08	$30	$2,080	$1,689	UP	Total Trading PFE
CS	09/11/08	$219	$1,385	$1,595	DOWN	Derivatives Loan Equivalent (DLE)
UBS	09/09/08	$1,000	$1,200	$856	UP	15-day close-out period, 99% confidence interval
BNPP	09/09/08	€ 531	€ 691	n/a	-	Potential Future Exposure
BAC	09/08/08	$139	$883	$960	DOWN	Potential Exposure (PE)
SocGen	09/09/08	$662	$776	n/a	-	Peak CVAR over life of trade
Deutsche	09/10/08	$0	$0	$441	DOWN	Counterparty Utilization (gross of collateral)

Institutional Commentary

Barclays (As of 9/11/08)
Barclays has been following a business-as-usual strategy with Lehman, albeit with a more cautious approach to future business. Barclays has not stopped doing business with LEH but the firm continues to actively monitor its exposure to LEH on an intra-day basis. All assignments and large/structured trades must be approved on an individual basis by Credit.

The firm's main concern right now is intra-day settlement risk generated from "give ups" ("give ups" refer to arrangements common in FX business whereby a counterparty transfers its trade with Barclays to another firm, and Barclays must settle with the other firm. In this situation, Barclays does not know of this settlement risk with an alternative counterparty until COB. "Give ups" are slightly different than novations, which are formerly papered and assigned.). Today, Barclays considered requesting that clients notify the firm real time of any "give ups", so that Barclays can better monitor its intra-day exposure to counterparties such as Lehman. However, the firm ultimately decided against this change in strategy given the potential adverse reputational impact.

Overall, Barclays exposure to Lehman has increased to $2.3B (from $2.2B on July 11, 2007) despite the total financing limit (TFL) decreasing ~$80MM to $3.1B. The decrease in TFL is driven exclusively by a decrease in primary (lending) exposure from a decrease in Bond Holding (from $172 million to $141 million). There are currently no reported collateral disputes outstanding with Lehman. Total TFL is a numerical limit of the bank's credit risk appetite to a particular entity.

Citigroup (As of 9/10/08)
Previously, Citi had requested that Lehman leave $2B on deposit to self-fund some of its intra-day clearing lines. On Monday, Citi and Lehman signed a formal agreement which gives Citi the right to offset any overdraft exposure against this deposit. Citi has informed Lehman that it will not extend any intra-day exposure beyond the size of this deposit. At the end of yesterday, Lehman added to the deposit, increasing it to $2.7B. Yesterday, Citi approved (at the highest levels) an additional $500MM above the $2.7B in order to release a payment to CLS. The approval was based on Citi's confidence in CLS and the concern that holding this payment could be disruptive to an orderly settlement.

Citi continues to trade normally with Lehman. Citi has seen a pick-up in novation activity but continues to accept these. There where no notable collateral disputes with Lehman.

Total Exposure to Lehman is $3.4B consisting of:
- $2.6B potential exposure ($207MM current exposure) from trading across 10 ISDA agreements
- $610MM in direct loans (offset by $490MM in CDS)
- $50MM in un-drawn contingent lines

Citi also has $3.2B in FX settlement limits for Lehman.

Credit Suisse (As of 9/11/08)
The firm has concerns about Lehman given the dramatic increase in CDS spreads and the declining share price. CS noted combined derivatives and FX MTM exposure of approximately $130MM. This includes approximately $70MM due to collateral not yet received and $5MM in disputes.

The firm reported seeing a significant influx of requests for parties looking to novate away from Lehman. Novation requests have been seen across all desks, with particular concentration in FX trades. A few requests have been declined over the last two days when deemed outside the normal course of business. The firm is currently undertaking discussions to determine policy for what novations to accept and not.

CRM has increased monitoring on hedge funds R3 and GLG. Lehman Brothers has invested in R3's new debt strategies fund, which purchased $5B in assets from Lehman in June.

Deutsche Bank (As of 8/21/08)
As of August 21st, DB does not have any credit exposure to Lehman Brothers. In fact, DB owes Lehman around $2.1B on derivative trades, of which DB has posted to Lehman $2.0B in cash and Treasuries.
As of last week's meeting with CRM, DB has not changed its stance in that it will continue to watch Lehman very carefully, but is not prepared to curtail trading with Lehman at this time.

JPMC (As of 9/10/08)
JPMC has secured an additional $3B in O/N collateral since yesterday from Lehman, and that is posted under a lien agreement in place with the firm. The collateral consisted of $1B in cash posted yesterday and $2B in JPMC money market fund investments made by Lehman. Today Lehman asked to substitute in some securities and JPMC risk executives are considering it. JPMC was concerned about not being in a position to meet calls on behalf of Lehman and so requested the additional coverage. Lehman met that request in addition to covering roughly $500MM in collateral disputes outstanding. To the extent JPMC determines the disputes are not warranted they may return collateral to Lehman but for now Lehman agreed to cover them.

3rd party haircuts are up substantially although no more details were offered other than confirmation one large investor has doubled their haircuts (from 8% to 16/20%). If tri-party investors increase haircuts its will force Lehman to reduce the size of its book.

A one notch ratings agency downgrade would require Lehman to post an additional $2B in collateral (Lehman's estimate) and a two notch downgrade approximately $5B in collateral across all counterparties. They are concerned that the rating agencies, particularly S&P, are ready to act and may not be satisifed by the proposed asset sales and real estate spin.

Novation activity has picked up on Lehman throughout the day but it is still too early to determine if the underlying exposures are sizable. JPMC is very sensitive to other firms attempting to move entire derivative books over without telling JPMC upfront and so may reserve the right to decline the novation requests if they feel that is the case.

JPMC reiterated, as it has in the past, that it does not want to be the first to stop trading, cut lines, and/or run from Lehman and are mindful of the implications of such a decision. However, they did state that they do not want to be the last one to make that decision and so will remain vigilant concerning (a) prime brokerage onboarding activity at JPMC, (b) activities of other major counterparties, and (c) behavior of tri-party investors.

UBS (As of 9/9/08)
As of 9/9/08, UBS's posture toward Lehman is business as usual. Traders were instructed to continue dealing with Lehman over the next 24 hours. Lines will not be cut and the name will not be turned down. Traders were instructed to hedge (correlated) exposure where possible. UBS is most concerned with the sensitivity in the derivatives book and correlation risk (assets held such as CRE/CMBS that may deteriorate if Lehman deteriorates further).

UBS is monitoring the Lehman PB business and noted that one hedge fund is planning on moving away from Lehman to UBS. UBS will continue to monitor the PB business and will let us know if other HF's begin to move away from Lehman. UBS is also reviewing legal contracts, determining which Lehman entities they are exposed to and running various stress scenarios on current exposures.

UBS's exposure to Lehman is as follows:
1. OTC derivatives: $1B MTM / Net of Collateral: $15MM MTM

2. Uncollateralized OTC derivatives: ~$0
3. Close-out exposure: $1.2B
4. Securities Borrowing/Lending
   UBS has lent out $4.7B in securities to Lehman entities (105% collateralized)
   UBS has borrowed $900MM in securities from Lehman entities (collateralized)

Repo: UBS has cash in of around $400MM and cash out of around $300MM.