

Amy White/NY/FRS
09/18/2008 08:25 PM

To
William BRODOWS/NY/FRS@FRS

cc

bcc

Subject
Re: BNYM 9/18 End of Day
RecapB5E4A476DF2A246C8525777B00572EEA

Haha.
See you tomorrow!

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

From: William BRODOWS
Sent: 09/18/2008 08:23 PM EDT
To: Amy White
Subject: Re: BNYM 9/18 End of Day Recap

Close enough. I couldn't remember what we ended up using. Tks. I didn't mean for you to respond tonight. Don't look at this machine tonite!!

Sent from my BlackBerry Handheld.

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

From: Amy White
Sent: 09/18/2008 08:21 PM EDT
To: William BRODOWS
Subject: Re: BNYM 9/18 End of Day Recap

We used the LC info from this email, but we used Morgan's data regarding the other types of collateral posted. I thought there might be a typo in the BNYM data since their numers totalled to 9 and Morgan said 8 in every communication (verbal and written) we received from them today.

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

From: William BRODOWS
Sent: 09/18/2008 08:07 PM EDT
To: Nandanee Ramdass; Amy White; Craig Leiby

Subject: Fw: BNYM 9/18 End of Day Recap

See morgan stanley clearing reqts. Is this the info we used?

Sent from my BlackBerry Handheld.

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

From: Ralph Santasiero
Sent: 09/18/2008 08:00 PM EDT
To: NY Bank Sup - LFI CPC Updates
Cc: Genevieve Walker; James Wall; Brian Begalle; Jeanmarie Davis; William Charwat; Ralph Santasiero
Subject: BNYM 9/18 End of Day Recap

Attached are consolidated end-of-day bullets from the BNYM CPC team.

BNYM Morning Recap (AM Call with BNYM Senior Management)

Money Market Funds

Last night Putnam Funds failed to wire \$1 bn expected in for BNYM customers (sweep acct) and was unresponsive to BNYM inquiries this morning. This created a knock on affect at BNYM as the expected funds were redirected into Dreyfus, creating an overdraft.

During mgmt conf call, Putman communicated to BNYM that they were not honoring redemptions. For BNYM, funding the shortfall/overdraft may create 23A issues, which they are currently working out. Putman also indicated that they were in contact with the Fed about relief.

Generally, the market is locked up and investors are moving to Treasury funds (flight to quality), but these funds are no longer taking additional funds (lack of Treasury securities). Also, the payments system platform is wired to assume that the redemptions occurred, and as a result the system assumes the money already went out of the bank. Typically mgmt expects \$300 billion to come through the portal in this fashion. The current environment creates serious issues, whereby, mgmt needs to de-couple this process by fund and is in currently working out a technology solution. Mgmt stated that rumor has it that the Fed is considering a support facility for the MM funds. A \$20 ml overdraft has been cleared with the Reserve Fund .

Morgan Stanley

At BNYM's request, MS agreed to provide incremental collateral against a \$200 ml unsecured LC MS also posted \$5 bn collateral against Tri-party unwind; \$2 bn against securities lent; and \$2 bn for Global Clearing business

At 12pm today mgmt plans to review MS exposure again and may require additional collateral. Rumor has it that MS has requested permission to downstream \$10bn from its Holding Co. for liquidity purposes.

Liquidity

Record levels of excess liquidity: \$50 billion excess last night as BNYM is a safe haven.

FFS in the amount of \$46bn last night, up from \$35 bn previous night; \$36 bn in FFS so far today. With the additional Central Bank injection of \$180 bn, this excess liquidity will likely continue to increase.

Record inflows to BNYM is continuing to create problems associated with their growing balance sheet.

Additional \$15 billion received in for AIG last night, with little instructions as to what these funds will be used for.

BNYM exceeded its max cap of \$74 billion as DLOD as it reached \$90 bn this morning because of the combination of Treasury settlement and PDCF. PDCF loan repayment of \$34.6 bn largely contributed to the overdraft so this will not be viewed as a true breach.

Credit

AIG continues to draw vs. credit facilities for subsidiaries and is in the process of removing a borrower from the credit agreement in place for the parent company. The bank feels that this is the

initial step in drawing vs. the parent company lines. BNYM's daylight overdraft line for the firm is at zero.

Mgmt is hearing that various firms are coming under pressure -- e.g. Macquarie Bank (Australia) due to funding problems resulting from short sales that is driving down the stock and liquidity pressures at the Alm Fund.

Tri-Party

Tri-party unwind was completed with BAU.

BNYM End of Day Update (Various PM Calls with BNYM Sr Mgmt)

Trust Bank Equity Price Update

After dropping by 30-40% during the course of the day - amid reports of a BNYM sec lending fund breaking the buck and further mark-to-market adjustments at State St. - trust bank stocks had a mixed recovery by the end of the day. As of 4pm, the results were as follows:

BNYM down 4.62% to \$31.57 (after dropping at least 30% intraday)
State Street down 8.88% to \$59.00 (after dropping about 40% intraday)
Northern Trust up 6.69% to \$75.45 (after dropping about 30% intraday)

By comparison:

S&P 500 up 4.33%
Citi up 18.67% at \$16.65
JPMC up 12.66% at \$40.30
BofA up 12.43% at \$30.58

Credit Update

Based on internal MIS, Sigma holdings in the BNYM sec lending business totaled approximately \$1.7 billion, with maturities beginning 10/30/08 out to 3/12/09. Approximately, \$1.1 billion of Sigma exposures is the commingled funds, where the bank previously indicated that there is the potential for bank support.

Management continues to see draws vs. credit lines due to higher rates in the commercial paper market. Both American Electric and Atlantic Gas & Light drew vs. BNYM participation in syndicated back-up liquidity facilities.

Prudential Fund is expected to fully draw vs. a \$500 million syndicated management facility, of which BNYM has \$250 million participation. As of last evening, the fund had drawn \$396 million. The bank indicated that the draw was due to redemptions.

Sec Lending Update

This morning, the bank received instructions from additional clients re their sec lending programs. Several clients, e.g. XL Capital and Sunoco, have requested either no new loans or a wind-down/cessation of their program. Another client requested that the cash collateral be moved between funds, e.g., from the Enhanced ERISA fund to another fund.

Mgmt provided additional information on the BNY Institutional Cash Reserve Fund, a commingled sec lending fund, which was reported in the financial news to have fallen below the \$1 NAV. BNY ICR is not a registered fund; however, it is a "AAA-rated" commingled fund and is required to maintain that rating. Last evening, S&P placed the fund on negative credit watch, with a potential downgrade linked to whether the bank provides capital support.

We were advised that the Commonwealth of Pennsylvania pension fund, a large sec lending client, is pulling back/restricting the lending of financial institution equities so as to not support short-selling in the market. The bank expects other state pension funds to follow suit.

BDS

Volumes and market composition are normal. Aggregate securities transactions of \$902 Bn out, \$925 Bn in.

BNYM's BDS has experienced some delays in moving LEH collateral from LEH's clearing bank (JPMC) to Barclays' clearing bank (BNYM). The collateral comprises both DTC and Fed-eligible collateral, which Barclays intends to use for triparty repo funding. The DTC collateral must be moved from JPMC to the BNYM account at DTC, then pledged to Barclays dealer's box at BNYM. Similarly, JPMC will deliver free through a DVP repo over Fedwire for the LEH Fed Collateral. Several complications in this cumbersome process resulted in multiple securities wire extensions. A

total of \$44 Bn will move in \$5 Bn increments. The first \$5 Bn went to JPMC in error but it was redirected appropriately to BNYM. The second increment of \$10 Bn was being processed at the time of the call.

Mgmt expects Barclays to go to the PDCF for a large amount. Bill Walsh has been notified. Volume and collateral composition stable on the triparty markets with aggregate value of approximately \$900 billion.

Treasury

Treasury is sorting out positions for institutional clients, as Putnam Prime Money Market Funds had to close out. The MMF could not meet redemption pressures caused by the investors mass exit. PPMMF has decided to distribute assets to the institutional investors.

Record levels of dollars continue to flow into BNYM as customers prefer parking liquidity at large payment processing banks viewed as safe havens for cash. As of 7:30pm, the bank had \$44bn FFS, which will likely increase as add't funds flow in. Net liquidity will exceed prior day's close of \$50bn as add't funds from Morgan Stanley (\$35+bn) are expected from proceeds of asset sales. Heavy demands on intraday liquidity due to T-bill settlement volume compounded with large PDCF returns.

Tri-party Repo Markets

Unwinds performed smoothly and unaffected by several extensions at Fedwire.

No change in the money fund space in terms of volume and no unusual patterns.