Phil Angelides
Chairman

Hon. Bill Thomas
Vice Chairman

Brooksley Born
Commissioner

Byron S. Georgiou
Commissioner

Senator Bob Graham
Commissioner

Keith Hennessey
Commissioner

Douglas Holtz-Eakin
Commissioner

Heather H. Murren, CFA
Commissioner

John W. Thompson
Commissioner

Peter J. Wallison
Commissioner

Thomas Greene
Executive Director

January 27, 2010

Via FedEx
The Honorable Mary Schapiro
Chairman
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Financial Crisis Inquiry Commission Hearing on January 14, 2010

Dear Chairman Schapiro:

On January 20, 2010, Chairman Angelides and Vice Chairman Thomas sent you a letter thanking you for testifying at the January 14, 2010 hearing and informing you that the staff of the FCIC might be contacting you to follow up on certain areas of your testimony and to submit written questions and requests for information related to your testimony. During the hearing, some of the Commissioners asked you to answer certain questions in writing, which are listed below. Please provide your answers and any additional information requested by February 26, 2010.

1. Did the SEC perform an internal review, audit or investigation regarding any failures of regulatory oversight by the SEC in light of the financial crisis? If so, please provide the internal review, audit or investigation. Please provide the internal reviews you testified the SEC prepared on Bear Stearns, Lehman Brothers, the CSE program, credit rating agencies and others.

2. Regarding the SEC's Consolidated Supervised Entity (CSE) program, please explain in detail whether the April 28, 2004 decision by the SEC to abolish the net capital rule for certain broker dealers caused or contributed to the collapse or near collapse of the investment banks under SEC supervision?

3. Did the SEC's decision on April 28, 2004 permit increased leverage at the investment bank holding company? Did the leverage at the broker-dealer level cause or contribute to problems at the investment bank holding company level?

4. Was the April 28, 2004 decision by the SEC a critical decision in the financial crisis? Please explain.

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5. Please explain whether (and how) the requirement that the investment banks under the CSE program follow the Basel II Standards caused or contributed to increased leverage at the investment banks?

6. For the investment banks that were part of the CSE program, please provide data concerning the leverage of the investment bank holding companies and their broker dealers for each year from 1995 to present.

7. Did the SEC ever instruct any investment bank to decrease its leverage? If so, did the investment bank(s) comply with the SEC's instruction?

8. Please explain and also identify any additional steps that the SEC could have taken to cause the investment banks to decrease leverage or otherwise avoid the problems they experienced in 2008.

9. How did the SEC analyze the models used by the investment banks under the CSE program? Please provide copies of all SEC analyses of the models.

10. Please provide copies of all internal reviews and evaluations by the SEC of its performance in supervising the investment banks under the CSE program.

11. Please provide all reports created by the SEC relating to the risk, safety and soundness, or leverage of the investment banks under the CSE program.

12. Please provide all reports and analyses created by the SEC concerning the so-called "uptick rule," including a memo from the SEC's economist.

13. Did manipulative short selling artificially drive down the stock price of any of the investment banks? Please provide all reports and analyses concerning the role of short selling in the depression of the stock prices or collapse of the investment banks.

14. Please explain how the mark-to-market accounting rule should be addressed, if at all, in terms of its impact on financial reporting and regulatory capital.

15. Were there adequate regulations in place at the start of the financial crisis that could have prevented the crisis had they been executed or enforced better by the regulatory agencies?

16. Did hedge funds, private equity funds, or venture capital firms cause or contribute to the financial crisis? Please provide all reports and data concerning the role, if any, of hedge funds, private equity funds, and venture capital firms in the financial crisis.

17. In response to Chairman Angelides's and Commissioner Thompson's questions concerning the use of off-balance sheet vehicles in the post-Enron era, please identify any gaps in existing laws and accounting rules that permitted the prevalence of structured investment vehicles (SIVs) and special purpose vehicles (SPVs) leading up to the financial crisis.

18. What agencies were responsible for the rules and regulations concerning the accounting for SIVs and SPVs? Did entities lobby for those rules and regulations in place at the time of the crisis?

19. Please provide any data on how many failures of SIVs and SPVs are related to subprime mortgages as opposed to collateral damage that resulted from financial crisis.

20. In response to Commissioner Georgiou's question, please provide details of the SEC's project regarding the requirement of loan level disclosures to investors in connection with the sale of securities.

21. Following up on Commissioner Graham's question, did the Private Securities Litigation Reform Act of 1995 cause or contribute to the financial crisis? In the wake of the financial crisis, please include any recommendations for changing the private securities litigation system and identify the costs and benefits of your recommendations.

22. Please summarize the institutions that you believe are part of the shadow banking system and the institutions that are outside the SEC's jurisdiction.

23. In response to Commissioner Murren's questions, please describe the new short-selling reporting requirements put into place in the fall of 2009 and other requirements the SEC is contemplating in the short-sale area.

The Commissioners and staff of the FCIC sincerely appreciate the SEC's continued cooperation with this inquiry. If you have any questions or concerns, please do not hesitate to contact Chris Seefer at (202) 292-2799, or cseefer@fcic.gov.

Sincerely,

Thomas Greene
Executive Director

cc: Phil Angelides, Chairman, Financial Crisis Inquiry Commission

Bill Thomas, Vice Chairman, Financial Crisis Inquiry Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE
GENERAL COUNSEL

BY HAND DELIVERY

March 5, 2010

Thomas Greene
Executive Director
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Suite 8000
Washington, DC 20006-4614

Re: Additional Information Requested from Chairman Schapiro

Dear Mr. Greene:

This responds to your letters of January 27 and February 3, 2010 sent on behalf of the Financial Crisis Inquiry Commission ("FCIC") requesting written responses from Chairman Schapiro and further documents as a follow-up to her testimony before the FCIC on January 14, 2010. We are hereby producing Chairman Schapiro's written responses to these follow-up questions along with documents responsive to the FCIC's requests. Since Chairman Schapiro was not at the Commission during most of the time period covered by the questions, she has provided the attached responses on the basis of personal knowledge and information provided by Commission staff. We request that to the extent the written responses contain confidential or non-public information, as noted therein, they be protected under the terms of the FCIC's Non-Disclosure Commitment to the Commission dated January 21, 2010. We also request that the documents that are being produced with the responses be protected under that Commitment.

The documents supporting Chairman Schapiro's written responses are contained on the enclosed disk. The documents numbered SEC_TM_FCIC_005236 through SEC_TM_FCIC_007085 are from the Division of Trading and Markets. The documents numbered SEC_OEA_FCIC_000257 through SEC_OEA_FCIC_002501 are from the Office of Economic Analysis of the Division of Risk, Strategy & Financial Innovation. The supporting documents supplement our prior productions to the FCIC, and are cited in Chairman Schapiro's written responses.

Thomas Greene
March 5, 2010

Although all of the documents we are producing constitute non-public information to be protected in accordance with the Non-Disclosure Commitment, some documents may be especially sensitive because they fall within the deliberative process and/or other privileges. By providing these documents to the FCIC, the Commission is not waiving any applicable privilege. The materials we are providing also may contain proprietary data, the disclosure of which could harm the Commission's ability to meet its statutory goals, and damage the interests or reputations of individuals or entities.

Consistent with the terms of the Non-Disclosure Commitment, we also request that this letter be deemed non-public information.

Please call me at (202) 551-5139 if you have any further questions regarding this matter.

Yours truly,

Samuel M. Forstein

Samuel M. Forstein
Assistant General Counsel

January 14, 2010 Financial Crisis Inquiry Commission Hearing

January 27, 2010 Questions and Chairman Schapiro Responses

1. Did the SEC perform an internal review, audit or investigation regarding any failures of regulatory oversight by the SEC in light of the financial crisis? If so, please provide the internal review, audit or investigation. Please provide the internal reviews you testified the SEC prepared on Bear Stearns, Lehman Brothers, the CSE program, credit rating agencies and others.

The SEC's Office of the Inspector General ("OIG") conducted a review of and issued reports entitled "SEC's Oversight of Bear Stearns and Related Entities: The Consolidated Supervised Entity Program (Report No. 446-A)" and the "SEC's Oversight of Bear Stearns and Related Entities: Broker-Dealer Risk Assessment Program (Report No. 446-B)." Separately, the OIG also conducted a review and issued a report concerning "The SEC's Role Regarding and Oversight of Nationally Recognized Statistical Ratings Organizations (Report No. 458)."

These OIG reports are provided on the accompanying disc (Bates Range SEC_TM_FCIC_006621-006927).[1]

2. Regarding the SEC's Consolidated Supervised Entity (CSE) program, please explain in detail whether the April 28, 2004 decision by the SEC to abolish the net capital rule for certain broker dealers caused or contributed to the collapse or near collapse of the investment banks under SEC supervision.

Although the SEC did not "abolish the net capital rule" for any broker-dealer in 2004, it did modify that rule for broker-dealers participating in the CSE program in a way that effectively reduced their capital charges for certain positions.

Under the Securities Exchange Act of 1934 ("Exchange Act"), the Commission has authority to supervise a registered broker-dealer, but not the broker-dealer's holding company or its unregistered affiliates. The CSE program was created in 2004 as a way for U.S. global investment banks that lacked a consolidated holding company supervisor to voluntarily submit to consolidated oversight by the SEC.

Under the CSE regime, the investment bank holding company had to provide the Commission with information concerning its activities and exposures on a consolidated basis; submit its non-regulated affiliates to SEC examinations; compute, on a monthly

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[1] These and the other documents produced today pursuant to the January 27, 2010 and February 3, 2010 requests (including Appendix 1, attached hereto) contain information that is non-public and confidential. Accordingly, we request that these confidential materials be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

basis, risk-based consolidated holding company capital in general accordance with the Basel Capital Accord; and provide the Commission with additional information regarding its capital and risk exposures, including market, credit and liquidity risks.[2]

In connection with submitting to this framework, the largest U.S. broker-dealer subsidiaries of entities participating in the CSE program (each, a CSE broker-dealer) were permitted to calculate their net capital requirements using an alternative net capital ("ANC") computation. In addition, certain large broker-dealers whose holding companies are subject to consolidated supervision by U.S. banking authorities also were permitted to use the ANC computation.

By way of background, under the SEC's net capital rule, every broker-dealer (including a CSE broker-dealer) is required to maintain a certain amount of net liquid assets, or net capital. Generally, a broker-dealer determines the amount of its net capital by starting with its net worth, as computed in accordance with generally accepted accounting principles, and adding to that amount qualifying subordinated loans (i.e., subordinated loans subject to restrictive terms such that they qualify as capital for regulatory purposes). A broker-dealer then deducts from that amount the total value of all illiquid assets, such as fixed assets, intangibles, real estate, and unsecured receivables, and may take certain additional charges related to operational issues at the firm. This amount is the tentative net capital rule. A broker-dealer must then take further deductions ("haircuts") for liquid assets (primarily marketable securities) to account for the market and liquidity risks associated with those assets. The amount remaining after the various deductions and haircuts described above is the broker-dealer's net capital. All broker-dealers must ensure that their net capital remains above the minimum levels specified in the net capital rule.[3]

The 2004 amendments changed the way in which CSE broker-dealers could determine their required haircuts under the net capital rule. Non-CSE broker-dealers must take specific haircuts set forth in the rule that are based on factors such as the type of security (e.g., debt or equity), the type of issuer (e.g., U.S. government or public

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[2] The CSE holding companies were subject to certain additional requirements. For example, they were required to maintain funding procedures designed to ensure that they had sufficient liquidity to withstand the complete loss of all short term sources of unsecured funding for at least one year. In addition, with respect to secured funding, these procedures incorporated a stress test that estimated what a prudent lender would lend on an asset under stressed market conditions. Furthermore, each CSE holding company was expected to maintain a substantial "liquidity pool" that was composed of unencumbered highly liquid and creditworthy assets that could be used by the holding company or moved to any subsidiary experiencing financial stress.

[3] The minimum amount of net capital required to be maintained by a broker-dealer depends on its business activities and on certain financial ratios. The minimum capital requirement for the CSE broker-dealers is the higher of (i) $1 billion in tentative net capital; (ii) $500 million in net capital; or (iii) 2% of its aggregate debit items. Generally, debit items are obligations of customers to the broker-dealer arising from, for example, margin loans. For non-CSE broker-dealers that carry customer accounts, the minimum capital requirement since the 1970s has been the higher of (i) $250,000 - $1,000,000 (depending upon the type of business conducted by the firm); or (ii) 2% of aggregate debit items.

company), the availability of a ready market to trade the security, and, if a debt security, the time to maturity.[4]

In contrast, a CSE broker-dealer was permitted to use its internal value-at-risk ("VaR") models to determine the market risk charges for certain positions and the credit risk charges for over-the counter ("OTC") derivatives-related positions, subject to specified conditions.[5] The use of these models was expected to result in lower capital charges than would otherwise have been required under the net capital rule.[6] To offset this result, these firms were required to provide an early warning notice to the SEC if their tentative net capital fell below $5 billion.[7] This $5 billion level effectively functioned as a minimum requirement because broker-dealers faced increased scrutiny and potential limitations on activities if their tentative net capital fell below that benchmark.[8]

All of the CSE holding companies either collapsed during the financial crisis or were acquired or converted to bank holding companies. Unfortunately, it is difficult to assess the extent to which reduced capital charges for the CSE broker-dealers contributed to that collapse, because we do not know what the CSE broker-dealers' or the CSE holding companies' capital levels would have been absent these changes. Nor do we know whether those capital levels would have made a material difference in the ultimate fate of these firms. In addition, the CSE holding companies and their subsidiaries experienced a number of significant challenges that clearly contributed to their financial distress (including the lack of secured financing for even high quality assets, the lack of access to routine sources of government funding available to bank holding companies, and the reliance on short-term funding for long-term holdings). Nevertheless, there are important lessons to be learned from the CSE program and the failure of the CSE firms, which are discussed in more detail in the response to Question 8 below.

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[4] For example, a U.S. government security with a maturity of between nine and 12 months has a haircut of 1%, whereas one with a maturity of 25 years or more has a haircut of 6%. An exchange-traded equity security has a haircut of 15%

[5] The standard net capital rule haircuts continued to apply to positions for which VaR modeling was not approved.

[6] In theory, the use of VaR models could result in higher capital charges for certain types of positions than otherwise would have been required under the standard haircuts. However, in adopting the ANC approach the SEC stated that "[a] broker-dealer's deductions for market and credit risk probably will be lower under the alternative method of computing net capital than under the standard net capital rule." Release 34-49830 (June 8, 2004), 69 Fed. Reg.34,428, 34,428 (June 21, 2004).

[7] See id. 69 Fed. Reg. at 34,431 ("This $5 billion early warning requirement is based upon the staff's experience and the current levels of net capital maintained by the broker-dealers most likely to apply to use the alternative method of computing net capital.").

[8] In addition, these firms were required to have in place comprehensive internal risk management procedures that address market, credit, liquidity, legal and operational risk at the firm. The CSE broker-dealers were also required to provide the Commission with specified financial, operational, and risk management information on a monthly, quarterly, and annual basis.

3. **Did the SEC's decision on April 28, 2004 permit increased leverage at the investment bank holding company? Did the leverage at the broker-dealer level cause or contribute to problems at the investment bank holding company level?**

The bracketed text below contains information that is non-public and confidential. Accordingly, we request that this confidential information be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

As noted above, prior to the establishment of the CSE program in April 2004, the CSE investment bank holding companies were not subject to any consolidated capital or other minimum financial requirements.

With respect to CSE broker-dealers, the changes to the broker-dealer net capital rule in 2004 (also described above) likely led to lower capital charges for certain proprietary positions that could have permitted higher leverage.

Leverage ratios at the CSE broker-dealers, based on quarter-end data, are included in the response to Question 6 below. In order to provide a more complete picture of leverage at the CSE broker-dealers, this data includes several different types of leverage ratios. For example, some leverage ratios in this data exclude stock borrow and reverse repurchase transactions from assets, because these transactions usually are offsetting and fully collateralized, and therefore do not present the same types of risk as, for example, potentially unhedged inventory positions. In addition, certain leverage ratios in this data are based on regulatory capital, which includes certain debt subordinated to the claims of customers.

Leverage ratios at the CSE holding companies are also included in response to Question 6 below. These leverage ratios are based on total assets over total shareholders' equity.

[As indicated in this data, leverage as measured in various ways frequently increased after a firm entered the CSE program. Whether this occurred and the extent to which it occurred varied depending on the firm, the leverage ratio being used (in the case of the broker-dealers), and the time periods being compared. In addition, the amount of leverage at quarter-end and the type of leverage also varied for each firm.

Although it is difficult to draw any definitive conclusions, the incidences of increased leverage observable within this data are generally consistent with the argument that changes in the net capital rule effectively permitted increased leverage at these broker-dealers. The data does not indicate how these firms' leverage ratios would have changed absent the 2004 amendments, nor does it indicate whether the incidences of increased leverage resulted from the 2004 amendments or from other market or business factors.]

With respect to the CSE holding companies, leverage ratios would have included leverage at their broker-dealer subsidiaries simply because the CSE broker-dealers are consolidated into the CSE holding companies. Again, however, we do not know what the leverage ratios of the CSE holding company would have been in the absence of the 2004 amendments. This data also do not indicate the extent to which changes in the leverage at the CSE holding companies were driven by the changes to the net capital rule for the CSE broker-dealers, or by other factors, including positions in the holding company itself or in other subsidiaries besides the CSE broker-dealer. It is worth noting, however, that for certain periods during the 1990s, the leverage of four CSE holding companies was sometimes higher than during the CSE program.[9] These leverage ratios are provided in response to Question 6 below.

4. Was the April 28, 2004 decision by the SEC a critical decision in the financial crisis. Please explain.

Given the many and often interrelated factors contributing to the financial crisis, it may not be possible to pinpoint any particular cause for the financial crisis. That being said, the creation of the CSE program to supervise U.S. investment bank holding companies on a consolidated basis substantially changed the regulatory framework for the largest U.S. investment bank holding companies. These holding companies became subject to consolidated oversight (albeit on a voluntary basis) for the first time and were required to comply with certain capital, liquidity and risk management requirements. The nature of the regulatory function required by the SEC with respect to these global firms, however, was substantially different from the Commission's historically more limited supervisory responsibilities with respect to registered broker-dealers, and in hindsight the agency did not have adequate resources devoted to executing this expanded regulatory role. Absent the 2004 change, to respond to the requirements of the EU's Financial Conglomerates Directive, the CSE holding companies likely would have had to be regulated on a comprehensive basis by another supervisor (for example, the Office of Thrift Supervision – which was recognized by the EU as a consolidated supervisor for AIG and GE or, if they converted to bank holding companies, by the Board of Governors of the Federal Reserve System). This oversight would likely have been different from the oversight provided by the SEC, and such oversight may have been accompanied by access to the back-stop liquidity provided to members of the Federal Reserve System. We cannot gauge the extent to which these changes might have affected the likelihood of the CSE firms failure as a number of large complex financial firms subject to these other regimes also failed or required substantial government support.

[9] The CSE investment bank holding companies entered the CSE program on the following dates: The Bear Stearns Companies Inc. (November 30, 2005); Lehman Brothers Holdings Inc. (November 9, 2005); The Goldman Sachs Group Inc. (March 23, 2005); Merrill Lynch & Co., Inc. (December 23, 2004); and Morgan Stanley (July 28, 2005).

5. **Please explain whether (and how) the requirement that the investment banks under the CSE program follow the Basel II Standards caused or contributed to increased leverage at the investment banks?**

Under the CSE program, the CSE holding company reported monthly a capital adequacy measurement consistent with the internationally recognized Basel Capital Accord. As noted in response to Question 2 above, prior to the CSE program the five independent investment banks were not subject to capital, liquidity, or leverage restrictions at the holding company level. Thus, compliance with the Basel Capital Accord standards, which act as a risk-based leverage limit, imposed a form of leverage limit on these holding companies where none had existed before.[10]

A CSE holding company could elect to report its capital ratio under either Basel I or Basel II. Basel II was a new method for computing credit risk charges under the Basel Capital Accord and added a new operational risk charge; the method for computing market risk charges was not directly affected by the adoption of Basel II.[11] Under Basel I, credit risk measures are calculated using a set formula that is based on, among other things, the type of borrower (e.g., a bank or unregulated borrower). Under the Basel II internal ratings-based ("IRB") approach, firms are allowed to use their own internal measures for determining the borrower's probability of default, subject to meeting certain conditions and to explicit supervisory approval. In addition, institutions using the advanced IRB approach also are permitted to rely on their own estimates of loss given default and exposure at default on an exposure-by-exposure basis. Additionally, firms were subject to a separate operational risk charge under Basel II that did not exist under Basel I.

Four of the five CSE holding companies computed capital under the Basel II IRB standards from the time they entered the CSE program. One CSE holding company used Basel I to compute its holding company capital ratio until April, 2007, when it began computing its capital ratio under Basel II. However, because the CSE holding companies were not required to run parallel computations under Basel I and Basel II, we do not have data regarding how these firms' capital or leverage requirements would have differed if they had used Basel I throughout the program. We understand the Basel Committee has conducted a number of quantitative impact studies to better understand the differences between Basel I and Basel II.[12]

The Basel Committee presently is revising its approach to calculating capital requirements to increase charges for market risk. These standards are expected to address the concentration, liquidity and leverage concerns that arose in the recent financial crisis. Once the revised approach is finalized, the Commission will review those changes to

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[10] CSE broker-dealers computed their capital requirements under the Commission's net capital rule, not the Basel Capital Accord.

[11] Basel II was not used by U.S. banks at the time of the financial crisis.

[12] See http://www.bis.org/bcbs/qis/index.htm.

ensure that the market risk charges applicable to the broker-dealers using VaR models to compute net capital under the ANC method are at least as stringent as the Basel market risk charges.

6. For the investment banks that were part of the CSE program, please provide data concerning the leverage of the investment bank holding companies and the broker dealers for each year from 1995 to the present.

Attached hereto as Appendix 1 are documents prepared by Commission staff that contain the requested data. Appendix 1 contains: (1) a graph which depicts leverage at the CSE holding companies, followed by a table containing the data used in creating the graphs; (2) a table containing the CSE broker-dealer leverage ratios; and (3) graphs that show the quarterly trends in (a) Total Assets and in (b) Stock borrowed, Reverse Repurchase Agreements, U.S. Treasury securities and U.S. Agency and GSE securities combined.

7. Did the SEC instruct any investment bank to decrease its leverage? If so, did the investment bank(s) comply with the SEC's instruction?

The Commission staff did not instruct any CSE holding company to decrease leverage.

8. Please explain and also identify any additional steps that the SEC could have taken to cause the investment banks to decrease leverage or otherwise avoid the problems they experienced in 2008?

In hindsight, the Commission could have sought to require the CSE holding companies to take additional steps to improve their financial or liquidity positions, such as by raising more capital, selling less liquid positions, reducing their leverage, or seeking more term financing to reduce reliance on overnight repo funding. Given the severity of the financial crisis and the deterioration of market conditions, it is not clear whether these objectives could have been achieved once the need for them had been identified.

One of the most difficult issues for the CSE holding companies was liquidity. Prior to the financial crisis, the SEC had taken a number of steps to address liquidity concerns for CSE holding companies: these firms were required to adopt procedures to have sufficient liquidity to withstand the complete loss of all short term sources of unsecured funding for at least a year, and to maintain a substantial "liquidity pool" of unencumbered, highly liquid and credit worthy assets available for financing.[13] These measures assumed that even in stressed environments, CSE firms could obtain secured funding against creditworthy assets.

As we now know, however, this assumption proved too optimistic. In particular, the CSE firms and regulators failed to appreciate how quickly liquidity in secured

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[13] These requirements are described more fully in footnote two.

financing markets can deteriorate. Some assets proved less liquid than had been expected. In addition, CSE firms had difficulty obtaining secured funding even when using assets that had been considered highly liquid. Thus, the CSE program did not sufficiently recognize the willingness of counterparties to simply stop doing business with well-capitalized institutions or to refuse to lend to CSE holding companies even against high-quality collateral. Runs could sometimes be stopped only with significant government intervention, such as through institutions agreeing to become bank holding companies and obtaining access to government liquidity facilities or through other forms of support.

Other lessons learned from the CSE program were described in my written testimony dated January 14, 2010, and include the need to recognize the inherent limitations of models (on which Basel capital standards depend heavily) and the assumptions underlying them; and the need for consolidated supervision to be accompanied by strong, consistent functional regulation of individual types of institutions, together with other tools such as effective capital requirements, strong enforcement, and transparent markets.

In addition, under the CSE program the SEC undertook for the first time the consolidated oversight of the five largest U.S. investment banks, whose operations were global in scope and extended well beyond the types of products and business lines typically found in a registered broker-dealer. Participation by the CSE firms in this regime was voluntary, and the consolidated oversight of these holding companies was more prudential in nature than the SEC's traditional rule-based approach for broker-dealer regulation. In brief, this program reflected a substantial change in the nature and scope of the SEC's oversight of financial firms. Properly executing the program called for a corresponding expansion in human, financial and other resources devoted to the oversight and examination of CSE holding companies and their subsidiaries. In retrospect, however, it appears clear that the program did not have adequate resources to achieve its objectives.

Although the SEC no longer conducts consolidated investment bank supervision under the CSE program,[14] it is seeking to carry forward the lessons learned from that program to its ongoing financial supervision of broker-dealers. For example, the SEC now obtains on a regular basis more detailed reporting regarding certain broker-dealers proprietary positions and balance sheet composition. In addition, the SEC now requires ANC broker-dealers to take standardized capital charges on less liquid mortgage and other asset-backed securities rather than using VaR models to determine such charges. Moreover, the staff is continuing to review key aspects of the agency's overall financial regulation of broker-dealers to determine how such regulation can be strengthened.

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[14] The Gramm-Leach-Bliley Act had created a voluntary program for the oversight of certain investment bank holding companies (i.e., those that did not have a US insured depository institution affiliate). The firms participating in the CSE program did not qualify for that program or did not opt into that program. Only one firm has ever opted into that program.

9. **How did the SEC analyze the models used by the investment banks under the CSE program? Please provide copies of all SEC analyses of the models.**

Commission staff's analysis of models related to two broad classes of financial models at CSE firms: (1) risk models and (2) pricing models. Risk models include models and methodologies for measuring market risk, such as VaR models and models used to measure potential exposure to counterparties. Pricing models are used for valuing books and records, and also for generating risk measures.

Commission staff reviewed risk models for compliance with the quantitative and qualitative requirements of the net capital rule. For products and applications where the staff deemed the risk model inadequate with regard to these requirements, the staff required the firm to take add-on capital charges. Ongoing performance of the risk models was monitored through regular tests as well as regular dialog with firm personnel.

With regard to pricing models, Commission staff efforts were directed towards reviewing whether that the firm's internal model controls and model governance policies, processes and mechanisms were functioning effectively and as intended.

SEC analyses concerning financial models used by CSE holding companies and broker-dealers are being provided by Commission staff on the accompanying disc (Bates Range SEC_TM_FCIC_006424-006616).

10. **Please provide copies of all internal reviews and evaluations by the SEC of its performance in supervising the investment banks under the CSE program.**

OIG reports concerning the CSE program are being provided on the accompanying disc (Bates Range SEC_TM_FCIC_006621-006803).

11. **Please provide all reports created by the SEC related to the risk, safety and soundness, or leverage of the investment banks under the CSE program.**

Certain documents responsive to this request were previously produced to the Commission on January 10, 2010 (Bates Range SEC_TM_FCIC_000001-002553) in response to a December 9, 2009 request. Supplemental materials are being produced on the accompanying disc (Bates Range SEC_TM_FCIC_005236-006423; SEC_TM_FCIC_006617-006620; SEC_TM_FCIC_ 006928-007085).

12. **Please provide all reports and analyses created by the SEC concerning the so-called "uptick rule", including a memo from an SEC economist.**

Reports, memoranda and analysis prepared by SEC staff concerning the "uptick rule," including memoranda from SEC economists, are being produced on the accompanying disc (Bates Range SEC_OEA_FCIC_001178-001265; SEC_OEA_FCIC_001266-001277; SEC_OEA_FCIC_001278-001367; SEC_OEA_FCIC_001465; SEC_OEA_FCIC_001466-001468;

SEC_OEA_FCIC_001469; SEC_OEA_FCIC_001470-001474; SEC_OEA_FCIC_001475-001476; SEC_OEA_FCIC_001482-001490; SEC_OEA_FCIC_001776-001801; SEC_OEA_FCIC_001802-001822). In addition, the Commission recently adopted a rule on short selling that discusses the uptick rule. An excerpt of that rule (including a section analyzing empirical data concerning the uptick rule received by the Commission during the comment period) is being produced on the accompanying disc as well (Bates Range SEC_OEA_FCIC_001381-001422). We also are including several general analyses of short-selling (Bates Range SEC_OEA_FCIC_001066-001177; SEC_OEA_FCIC_001368-1380; and SEC_OEA_FCIC_001423-001464).

13. Did manipulative short selling artificially drive down the stock price of any of the investment banks? Please provide all reports and analyses concerning the role of short selling in the depression of the stock prices or collapse of the investment banks.

The bracketed text below contains information that is non-public and confidential. Accordingly, we request that this confidential information be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

[We do not have information at this time that manipulative short selling was the cause of the collapse of Bear and Lehman or of the difficulties faced by other investment banks during the Fall of 2008. Investment banks during that period experienced a loss in confidence by their counterparties which, in turn, caused a significant loss in the firms' liquidity. Our analysis shows that the price pressure on bank stocks during the Fall of 2008 was more the result of long sales than short sales. Some investors have indicated that they believe fails to deliver are indicative of manipulative "naked" short selling. There was no pattern of excessively high fails prior to Bear's collapse. Indeed, with respect to Bear, the information available indicates that generally, short sales occurred after the information on the potential collapse and before the bailout/acquisition had been settled. With respect to Lehman, there were moderately high fails during the week prior to its collapse. Thus far, we have not yet found any information that the fails (which can be due to long or short sales and operational issues) or price deterioration in either of these firms were indicative of "naked" short selling or manipulation. Nonetheless, we are still analyzing the trading and other information.]

Reports and analyses concerning the role of short selling in the depression of the stock prices or collapse of the investment banks are being produced on the accompanying disc (Bates Range SEC_OEA_FCIC_000257-001065; SEC_OEA_FCIC_001266-001277; and SEC_OEA_FCIC_001858-002018).

14. Please explain how the mark-to-market accounting rule should be addressed, if at all, in terms of its impact on financial reporting and regulatory capital.

Fair and efficient capital markets depend on investors being able to rely on the financial information prepared by public companies. Accounting standards are an important element for reporting credible, transparent and comparable financial information that these investors rely on in making investing decisions. Changes to accounting standards, including those related to mark-to-market accounting, should only be made when those changes are consistent with the goal of providing useful high-quality information to investors in their decision-making process. The determination of the extent and manner in which mark-to-market accounting is incorporated into financial reporting should be focused on providing investors with the most decision-useful information.

In the SEC staff report to Congress on mark-to-market accounting delivered on December 30, 2008,[15] the staff recommended against suspending mark-to-market accounting. Based on the analysis performed, the staff found that investors generally believe that existing mark-to-market, or "fair value," accounting standards have increased the quality of information available to them. The staff heard from investors that changes made to accounting that reduce transparency, for example suspending fair value reporting for financial instruments, would harm investor confidence and lead to additional financial instability.

Although the report recommended against suspension of mark-to-market accounting, it did recommend that measures be taken to improve the application of fair value accounting requirements. Since the issuance of the SEC staff report, the Financial Accounting Standards Board ("FASB") has issued additional accounting guidance designed to improve fair value measurement estimates in inactive markets and to provide more transparent disclosure about fair value estimates consistent with the SEC staff recommendations. Further, consistent with recommendations in the staff study, the FASB is currently working on a comprehensive project to improve accounting for financial instruments that is expected to be completed by the end of 2010.

Mark-to-market accounting also plays an important role in the execution of our oversight of broker-dealers including the determination of their capital requirements.

Under the Commission's net capital rule, broker-dealers are required to be in capital compliance at all times. Generally, under this net capital rule, broker-dealers are required to maintain an amount of liquid assets that is greater than all non-subordinated liabilities so that the firm can promptly meet its obligations to customers and other creditors. One fundamental premise of the rule is that broker-dealers must mark positions to current market prices and immediately recognize losses on their proprietary positions in order to appropriately measure their liquid asset positions.

Mark-to-market accounting also is essential to the risk management of securities firms. Firms need to accurately identify, measure, and manage the market risk arising from their proprietary positions and marking positions to market is a fundamental aspect

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[15] Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting, available at http://www.sec.gov/news/studies/2008/marktomarket123008.pdf; see also http://www.sec.gov/news/press/2008/2008-307.htm.

of that risk management process. In addition, a robust mark-to-market regime may eliminate or mitigate incentives for holding onto positions as they decline in value. When a position is marked-to-market, an economically rational decision can be made whether to sell or hold the position.

15. Were there adequate regulations in place at the start of the financial crisis that could have prevented the crisis had they been executed or enforced better by the regulatory agencies?

Given the many interrelated causes of the financial crisis – and statutory gaps that limited agency authority – it is difficult to say whether the execution or enforcement of any particular rule could have prevented the crisis entirely. That being said, clearly there were a number of missed opportunities where regulators, including the SEC, could have used existing authority in ways that could have helped. For example, stronger state or federal mortgage underwriting standards could have improved the quality of mortgages and likelihood of borrower repayment over time. Stronger rules for asset-backed securities could have provided investors with more information about these products in ways that might have improved the quality of these products. And, as noted above, stronger liquidity requirements could have substantially slowed, at the very least, problems at the CSE firms. In addition, there were other facilitators of the crisis (such as the lack of transparency and oversight of OTC derivatives) where statutory changes are essential.

16. Did hedge funds, private equity funds, or venture capital firms cause or contribute to the financial crisis? Please provide all reports and data concerning the role, if any, of hedge funds, private equity funds, or venture capital firms in the financial crisis.

The Commission cannot compel registration, reporting or examination of hedge funds, and as a result, we simply do not have the data necessary to make this judgment

We understand that certain private funds, as significant users of leverage, may well have contributed to the market turmoil as those private funds unwound highly leveraged positions. Going forward, private fund adviser registration, reporting requirements and periodic examinations would help us understand better the role that these important participants play in our markets.

17. In response to Chairman Angelides's and Commissioner Thompson's questions concerning the use of off-balance sheet vehicles in the post-Enron era, please identify any gaps in existing laws and accounting rules that permitted the prevalence of structured investment vehicles (SIVs) and special purpose vehicles (SPVs) leading up to the financial crisis

Investors – and the market as a whole – are best served by financial information that is presented fully and clearly. Finding the right balance of information to be included in the balance sheet is at the heart of some of the most complex issues in financial reporting, and there is a long history of regulators and standard setters addressing these issues.

In the post-Enron era, and as required by the Sarbanes-Oxley Act of 2002, the staff of the Securities and Exchange Commission released a report[16] in June 2005 that examined a broad range of topics with off-balance sheet implications. The report identified improvements in financial reporting that had been implemented since passage of the Sarbanes-Oxley Act and offered recommendations for further improvements designed to increase both the transparency and usefulness of the balance sheet. The report has served as an important building block in continuing toward greater transparency in financial reporting, particularly in terms of improving the financial reporting of arrangements with off-balance sheet implications.

One of the areas that the report identified for improvement related to the accounting for transfers of financial assets to special purpose entities ("SPEs")[17] designed to meet criteria specified in the accounting standards. The accounting criteria required, among other things, that the SPE be significantly limited in nature in order for the entity to be a "qualifying" special purpose entity. Such qualifying SPEs ("QSPEs") were exempted from consolidation (i.e., were reported off-balance sheet). In place of consolidation, upon transferring financial assets to a QSPE, a company would recognize on its balance sheet only financial and servicing assets that it continued to control and liabilities that it had incurred. The company would remove from its balance sheet financial assets for which it had surrendered control and would remove liabilities that it had extinguished.

As the report noted, this area is challenging to standard setters, in large part because financial structures are virtually limitless and were continuing to evolve at a rapid pace. Increasingly, application questions arose regarding the criteria for an SPE to be qualifying. For example, there were application questions about whether mortgage loan restructuring activities were consistent with the accounting criteria that the entity's activities must be significantly limited.

In early 2008, the Commission staff asked the FASB to expedite their projects to address those application issues. The FASB did so and, in June 2009, issued two major standards that change the accounting and reporting guidance for transfers of financial

[16] Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers, available at http://sec.gov/news/studies/soxoffbalancerpt.pdf; see also http://www.sec.gov/news/press/2005-91.htm

[17] An SPE is a legal entity created by a sponsor to fulfill particular narrow, specific or temporary objectives. The term SPE can be used largely interchangeably with the term SPV. An SPE can be used for a variety of business purposes, including the transfer of credit or interest rate risk, as a source of funding, and other purposes. One of the most common uses of an SPE is in securitizations. A structured investment vehicle (SIV) is an SPV that issues short-term debt securities (such as commercial paper and medium-term notes) and invests the issuance proceeds in longer-term corporate bonds and asset-backed securities (such as securities backed by residential mortgages, commercial mortgages, credit cards and student loans).

assets and consolidation of certain types of entities, including SIVs, SPVs, and QSPEs.[18] The new consolidation standards attempt to address concerns that the accounting and consolidation determinations were too often based on complex mathematical calculations rather than a more objectives-based analysis. The new standards also eliminated the consolidation exemption for QSPEs, now requiring those structures to be evaluated for on-balance sheet treatment. In addition, recognizing that it would not be possible to predict each of the various structures that could be created to circumvent the new consolidation guidance, the FASB included a general abuse prevention measure in the standard that non-substantive terms, transactions, and arrangements (whether contractual or non-contractual) must be disregarded when applying the consolidation criteria. The new standards also require a number of new disclosures that are designed to provide better information about a company's exposure to on- and off-balance sheet risks. Among other disclosure requirements, companies are now required to disclose the significant judgments and assumptions made in forming their consolidation determinations.

Now that the FASB has completed amendments to its existing standards, the FASB and the International Accounting Standards Board ("IASB") are engaged in a joint project to provide comprehensive and improved guidance for consolidation of all entities, including entities controlled by voting or similar interests (i.e., non-SPEs). The boards expect to issue a proposal for comment during 2010 and a final standard by the end of 2010.

18. What agencies were responsible for the rules and regulations concerning the accounting for SIVs and SPVs? Did entities lobby for those rules and regulations in place at the time of the crisis?

The SEC has statutory authority to establish financial accounting and reporting standards for publicly-held companies under the Securities Exchange Act of 1934. Since 1973, the standards of the FASB, under SEC oversight, have been recognized by the SEC as authoritative for setting accounting standards.

In setting accounting standards, the FASB follows certain precepts in the conduct of its activities. These precepts are:

- to be objective in its decision-making;
- to weigh carefully the views of its constituents;
- to promulgate standards only when the expected benefits exceed the perceived costs;

[18] FASB Statement No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140, and FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), contained in FASB Accounting Standards Codification, Topics 860, Transfers and Servicing, and 810, Consolidation, respectively, available at http://asc.fasb.org/.

- to bring about needed changes in ways that minimize disruption to the continuity of reporting practice; and

- to review the effects of past decisions and interpret, amend, or replace standards in a timely fashion when such action is indicated.

The FASB follows an open, deliberative process in setting accounting standards and may be able to provide the FCIC with additional information about the specifics of any previously undertaken standard setting process. The FASB's standard setting process allows for due process that includes broad public exposure of documents and consultation with various advisory groups, task forces and working groups of constituents. The FASB seeks feedback from groups such as individual investors, institutional investors, lenders, analysts, auditors, financial statement preparers, regulators, academics, and various other parties. This process is essential to ensuring that accounting standards remain current while promoting credible, comparable financial information.

The FASB has studied issues surrounding transfers of financial assets – and the on- or off-balance sheet treatment of entities such as SPVs and SIVs – several times in its history.[19] The most recent changes occurred in June 2009, when the FASB issued two new standards, Statements No. 166 and 167, that changed the accounting and reporting guidance for transfers of financial assets and consolidation of certain types of entities, including SPVs and SIVs holding mortgage-related and other assets. In connection with those statements, the FASB followed its standard deliberative process: it received comments and was available for meetings with proponents and opponents of its proposed guidance.[20] Throughout the process, the FASB followed its precepts in deciding upon each final accounting standard. In addition, as part of our oversight of the standard setting process, staff of the Commission met with interested parties to discuss their views of the proposed guidance.

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[19] For example, in June 1996, the FASB issued Statement No. 125 to provide a new approach to determine whether transferred financial assets should be removed from, or retained on, a company's balance sheet. To respond to application questions that had arisen after the issuance of Statement No. 125 and to make improvements to the guidance, the FASB issued Statement No. 140 in September 2000. Both Statement No. 125 and Statement No. 140 included guidance on QSPEs. In January 2003 and December 2003, the FASB issued guidance in Interpretation 46 and 46R on the consolidation of "variable interest entities." That guidance was issued "post-Enron" to clarify application of consolidation to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. This guidance affected many SPVs and SIVs.

[20] Letters of comment become part of the FASB's public record. The public records on all projects are available for inspection in the FASB's public reference room in Norwalk, CT. While a project is in process, comment letters received can be obtained from the FASB's public web site.

19. Please provide any data on how many failures of SIVs and SPVs are related to subprime mortgages as opposed to collateral damage that resulted from financial crisis.

Unfortunately, the SEC staff does not have data on how many failures of SIVs and SPVs are related to subprime mortgages as opposed to collateral damage that resulted from the financial crisis, nor is staff aware of any single comprehensive mechanism to track these entities, whether they failed and for what reasons. While we are not aware of anything specific, it is possible the respective banking regulators may have more insight into how the failures of any particular SIVs or SPVs affected individual bank failures.

20. In response to Commissioner Georgiou's question, please provide details of the SEC's project regarding the requirement of loan level disclosures to investors in connection with the sale of securities.

The financial crisis exposed serious gaps in the asset-backed securities market. For example, one of the major factors in the financial crisis was the rise of subprime mortgage-backed securities. As a result, the SEC staff has engaged in a broad review of the way in which asset-backed securities are regulated. The staff has reviewed disclosures, the offering process, and reporting by asset-backed issuers. The staff is developing recommendations for several proposed changes designed to enhance investor protection in this vital market.

The staff's recommendations will seek to align the interests of investors with those selling asset-backed securities, thereby increasing the quality of the securities. Among other things, the recommendations will seek to provide significantly more time for investors to conduct a careful analysis before investing, and to require the disclosure of loan-level data in a format and manner that is accessible to investors. The staff also intends to present recommendations that will seek to create a mechanism for ongoing disclosure.

These recommendations should come before the Commission shortly and, if approved, would then be subject to public comment. The recommendations being developed will address issues that contributed to or arose from the financial crises – including a lack of timely information sufficient to enable investors to adequately assess the investment opportunity. The recommendations will include a number of important disclosure requirements, qualitative revisions to the eligibility standards for "shelf" offerings,[21] and an elimination of the use of credit ratings as an eligibility standard for shelf. The recommendations will be forward looking: to improve areas that may not yet

[21] "Shelf" registration provides issuers the ability to access the capital markets quickly. In shelf offerings, securities may be first registered and then offered on a delayed basis. At the time of each offering of securities off the registration statement, the issuer provides deal-specific information by filing the offering documents with the Commission in accordance with our rules. While shelf registration statements were permitted earlier, contemporaneous with the enactment of the Secondary Mortgage Market Enhancement Act of 1984, the Commission began permitting mortgage-backed securities to be offered on a shelf basis.

have caused serious problems, but have the potential to raise issues similar to the ones highlighted in the financial crisis.

21. Following up on Commissioner Graham's question, did the Private Securities Litigation Reform Act of 1995 cause or contribute to the financial crisis? In the wake of the financial crisis, please include any recommendations for changing the private securities litigation system and identify the costs and benefits of your recommendations.

The Commission has consistently stressed the importance of private remedies under the federal securities laws, both as a supplement to our own enforcement activities and as an important vehicle for compensating harmed investors. Although the Private Securities Litigation Reform Act made significant changes in the system of private securities litigation, we have no data to quantify its impact on the financial crisis.

22. Please summarize the institutions you think are part of the shadow banking system and the institutions that are outside the SEC's jurisdiction.

The "shadow banking system" ("SBS") is a loose term used to refer to non-bank participants in the financial system that undertake activities traditionally associated with lending. Some participants, like money market funds ("MMFs") are subject to SEC jurisdiction and are highly regulated; some, like insurance companies, are regulated by other agencies; others, like hedge funds and SIVs, are subject to little or no regulation. The transactions that may be considered part of the SBS are themselves difficult to set forth, as a number of financial transactions have characteristics of "lending" or "investing"/"purchasing" (for example, "Repo" transactions).

For example, one SBS illustration, could begin with a non-bank mortgage originator (often regulated by states), selling a mortgage to an investment bank (subject in part to SEC jurisdiction) or GSE (e.g., Fannie Mae and Freddie Mac, regulated by the FHFA), who can then pool these loans into an asset-backed security that is sold through a registered broker-dealer (subject to SEC jurisdiction) to investors (which might include hedge funds, private equity, etc. who can be virtually unregulated). These investors, while purchasing securities, are thought to facilitate the lending by the non-bank mortgage originator. This system is made more complicated by the fact that many regulated banks and bank holding companies own non-bank mortgage originators, securitizers and sponsor SIVs that are themselves key players in the SBS.

23. In response to Commissioner Murren's questions, please describe the new short-selling reporting requirements put into place in the fall of 2009 and other requirements the SEC is contemplating in the short-sale area.

In July 2009, the Commission made permanent a temporary rule in response to continuing concerns regarding "fails to deliver" and potentially abusive "naked" short selling. In particular, this rule ("Rule 204") requires broker-dealers to promptly purchase or borrow securities to deliver on a short sale. These measures substantially furthered the

Commission's goals of addressing potentially abusive "naked" short selling and reducing the amount of failures by broker-dealers to deliver a stock to settle a transaction.

Beginning August 2009, the Commission and its staff, together with several self-regulatory organizations ("SROs"), substantially increased the public availability of short sale-related information through a series of actions:

- Daily Publication of Short Sale Volume Information: SROs began publishing on their Web sites the aggregate short selling volume in each individual equity security for that day.
- Disclosure of Short Sale Transaction Information: SROs began publishing on their Web sites on a one-month delayed basis information regarding individual short sale transactions in all exchange-listed equity securities, excluding any identifying information.
- Enhanced Disclosure of Fail to Deliver Information: The Commission enhanced the publication on its Web site of fails to deliver data so that fails to deliver information is provided twice per month and for all equity securities, regardless of the fails level.

The Commission also held a public roundtable on September 29 and 30, 2009, that featured an in-depth review of securities lending practices and analyzed possible short sale pre-borrow and hard locate requirements, as well as additional short sale disclosures. Panelists included investors, corporate issuers, financial services firms, beneficial owner lenders, lending agents, borrowers of securities, SROs, international regulators, and members of the academic community. The staff will continue to seek input on whether Commission action is needed for short sale disclosures, and whether it should continue its efforts to address abusive "naked" short selling by enhancing the Regulation SHO "locate" requirement.

In response to the development of the subprime mortgage crisis and credit crisis in 2007, market volatility, including steep price declines, and an erosion of investor confidence, the Commission voted unanimously on April 8, 2009 to seek public comment on whether short sale price restrictions or circuit breaker restrictions should be imposed and whether such measures would help restore investor confidence. On May 5, 2009, the Commission hosted a public roundtable to discuss the proposed short sale price test restrictions and short sale circuit breakers. On August 20, 2009, the Commission published a supplemental request for comment and re-opened the comment period to the Price Test Proposal to solicit additional feedback regarding an alternative price test which would allow short selling only at a price above the current national best bid.

On February 24, 2010, the Commission adopted a new rule to place certain restrictions on short selling when a stock is experiencing significant downward price pressure. The measure is intended to promote market stability and preserve investor confidence. This alternative uptick rule is designed to restrict short selling from further driving down the price of a stock that has dropped more than 10 percent in one day. It will enable long sellers to stand in the front of the line and sell their shares before any short sellers once the circuit breaker is triggered. The rule contains the following features:

- Short Sale-Related Circuit Breaker: The circuit breaker would be triggered for a security any day in which the price declines by 10 percent or more from the prior day's closing price.

- Duration of Price Test Restriction: Once the circuit breaker has been triggered, the alternative uptick rule would apply to short sale orders in that security for the remainder of the day as well as the following day.

- Securities Covered by Price Test Restriction: The rule generally applies to all equity securities that are listed on a national securities exchange, whether traded on an exchange or in the over-the-counter market.

- Implementation: The rule requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent the execution or display of a prohibited short sale.

February 3, 2010 Questions and Chairman Schapiro Responses

1. Question 23 in the January 27, 2010 letter asked you to describe the new short-selling reporting requirements put into place in the fall of 2009 and other requirements the SEC was contemplating in the short-sale area. Please also explain the reasons for the new short-selling reporting requirements and any other requirements the SEC is contemplating in the short-sale area. Did the SEC uncover or become aware of abuses that precipitated the changes? Who will be governed by these changes? How will the SEC monitor compliance?

While I was not at the Commission at that time, I understand that in the Fall of 2008 when the Commission issued the emergency orders and interim final temporary rules that changed short sale rules (including imposing short sale reporting requirements), there was no clear evidence of abuses. However, the Commission was concerned that abuses might occur because of the loss of investor confidence in financial institutions at that time. For instance, the Commission became concerned that some persons would take advantage of issuers that had become temporarily weakened by the financial conditions to engage in inappropriate short selling of those issuers' securities. As a result, the Commission issued the emergency short sale orders and rules to address the potential for a substantial threat of sudden and excessive fluctuations of securities prices generally that could threaten fair and orderly functioning of the securities markets. Several markets around the world undertook limitations on short selling at that time as well.

Concurrent with the development of the subprime mortgage crisis and credit crisis in 2007, market volatility, including steep price declines, particularly in the stocks of certain financial services issuers, increased markedly in the United States and in every major stock market around the world (including markets that continued to operate under short sale price test restrictions). As market conditions worsened, investor confidence eroded, and the Commission received requests from many commenters to consider imposing restrictions with respect to short selling, in part in the belief that such action would help restore investor confidence. As a result of the loss of investor confidence, the Commission believed it was appropriate to re-examine and seek comment on whether to restore restrictions with respect to short selling. Thus, on February 24, 2010, the Commission adopted Rule 201, which, as described above, establishes a circuit breaker rule for any national market system security that declines in price by 10 percent or more in a single trading day. Once the circuit breaker is triggered for a security, short sellers will be prevented from selling short that security at a price that is at or below the national best bid for that security for two trading days.

Rule 201 requires that all trading centers adopt policies and procedures reasonably designed to prevent short selling in violation of the rule. Trading centers include exchanges, market makers, alternative trading systems, and broker-dealers that internalize orders. In addition, if broker-dealers choose to do so, they may assume responsibility for compliance by adopting polices and procedures under the rule.

The Commission and SROs will carefully monitor whether trading centers' policies and procedures are reasonably designed to prevent short selling in violation of Rule 201. To the extent that a trading center's policies and procedures permit any execution or display of a short sale order not in accordance with the requirements of the rule, such trading center's policies and procedures may be considered not reasonable and could subject the trading center to enforcement action. Further, any conduct by trading centers or other market participants that facilitates short sales in violation of Rule 201 could also lead to liability for aiding and abetting or causing a violation of Regulation SHO, as well as potential liability under the anti-fraud and anti-manipulation provisions of the federal securities laws, including Sections 9(a), 10(b), and 15(c) of the Exchange Act, and Rule 10b-5 thereunder.

In addition, in its release adopting Rule 201, the Commission encouraged researchers to provide the Commission with their own empirical analyses regarding the impact of the rule on the options markets and market quality in general. Commission staff will carefully monitor the operation of the rule to assess its impact and effectiveness, including the rule's impact on market quality, to determine whether any modifications to the rule are warranted. In addition, the Commissioners has instructed the staff to assess the impact of the rule on the options markets and to provide a written report of their assessment within the shortest time practicable for completing a meaningful study, which we expect will not exceed two years from the rule's compliance date. To the extent that we determine at any time that any of the current parameters of Rule 201 (such as the exceptions to the rule, the 10 percent trigger level, the duration of the price test restriction if triggered, the basing of the trigger level on the prior day's closing price as determined by the covered security's listing market, or changed market conditions) result in Rule 201 not adequately addressing the Commission's concerns or meeting our goals in adopting it, we will consider whether to amend Rule 201 or grant relief thereunder, as appropriate at that time.

The Commission also is considering potential enhancements to the Regulation SHO "locate" requirement and short sale disclosure rules. As described above, in September 2009, the Commission held a roundtable with participants from across the market to discuss whether enhancements to Regulation SHO's "locate" requirement or short sale disclosure rules are needed. The Commission continues to consider these issues, but has not yet determined what, if any, rules are needed or which participants would be governed by rules regarding potential enhancements to the short sale "locate" requirement or potential short sale disclosure requirements.

2. **Please state whether the SEC has received any complaints relating to manipulative short selling and what recourse corporations have if they are victims of manipulative short selling. Please provide any records of complaints lodged with the SEC relating to manipulative short selling, any response by the SEC to the complainant and any action taken in response to the complaint.**

The bracketed text below contains information that is non-public and confidential. Accordingly, we request that this confidential information be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

Market manipulation effected by abusive short selling, like manipulation in all its other forms, is an issue that the Commission takes very seriously. The Division of Enforcement has received complaints of abusive short selling, and it follows up on all credible leads.

A corporation that believes it is a victim of manipulative short selling can, among other things, bring that conduct to the attention of the SEC and the appropriate self-regulatory organization. The Commission has brought a number of enforcement actions relating to abusive short selling. See, e.g., *In re Palmyra Capital Advisors LLC*, Investment Advisers Act of 1940 Release No. 2976 (January 26, 2010) (Investment adviser found to have engaged in improper short selling practice and sanctioned); *In re AGB Partners LLC et al.*, Investment Advisers Act of 1940 Release No. 2977 (January 26, 2010)(Investment adviser found to have engaged in improper short-selling practices and sanctioned); *In re TJM Proprietary Trading, LLC et al.*, Securities Exchange Act Release No. 60440 (August 5, 2009) (Broker-dealer, Chief Operating Officer, trader all found to have participated in "naked" short selling and sanctioned); *In re Hazan Capital Management, LLC and Steven M. Hazan*, Securities Exchange Act Release No. 60441 (August 5, 2009) (Broker-dealer and its managing member found to have participated in "naked" short selling and sanctioned); *In re Sandell Asset Management et al.*, Investment Advisers Act of 1940 Release No. 2670 (October 10, 2007) (Investment adviser found to have engaged in unlawful short selling on behalf of its client and sanctioned).

The SEC has received complaints relating to manipulative short selling and other short selling matters. Members of the SEC's staff will be in contact with your staff to discuss arrangements to make these documents available for the FCIC's review. In response to concerns about short selling, the Commission has taken a number of measures, including increasing short sale transparency, adopting a "naked" short selling anti-fraud rule, and requiring broker-dealers to promptly purchase or borrow securities to close-out a fail to deliver on a short sale. In addition, in February of this year, the Commission adopted a rule that would restrict short selling when a stock is experiencing significant downward price pressure.

3. **Has the SEC reviewed or investigated the trading in the stocks of financial firms that received government assistance in the months preceding the date they received government assistance? Please provide any reports of such trading including reports on daily trading volume and prices, reports of changes in the financial firms' own proprietary positions, and reports of the largest volume traders in these stocks other than index funds, including hedge funds that were clients of the financial firms. Please also state whether the SEC has taken any action and describe the actions taken.**

The bracketed text below contains information that is non-public and confidential. Accordingly, we request that this confidential information be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

On September 19, 2008, the Commission announced it had expanded its ongoing investigation into possible abusive market manipulation in the securities of certain financial institutions. This measure required hedge fund managers, broker-dealers, and institutional investors with significant trading activity in financial issuers or positions in credit default swaps to, under oath, disclose those positions to the Commission and provide certain other information. <u>See</u> *SEC Expands Sweeping Investigation of Market Manipulation*, SEC Press Release 2008-214 (Sept. 19, 2008). These orders were issued pursuant to Section 21(a) of the Exchange Act, which allows the Commission to "require . . . any person to file with it a statement in writing, under oath or otherwise as the Commission shall determine, as to all the facts and circumstances concerning the matter to be investigated." At the same time, the Commission also publicly announced its approval of a formal order of investigation to allow SEC enforcement staff to obtain additional documents and testimony by subpoena.

The Commission issued Section 21(a) Orders to a number of entities, [including Goldman Sachs Group, Inc., JP Morgan Chase & Co., Lehman Brothers Holdings, Inc., and Merrill Lynch & Co. Compliance with the Section 21(a) Orders and responses to investigative subpoenas have resulted in voluminous reports of trading, including hundreds of millions of Blue Sheet records. These reports comprise more than one million pages of materials.] Members of the SEC's staff will be in contact with your staff to discuss arrangements to make these documents available for the FCIC's review.

Prior to expanding its investigation of abusive market manipulation, the Commission took several coordinated actions in 2008 to strengthen investor protections against "naked" short selling. The actions apply to the securities of all public companies, including all companies in the financial sector. The Commission enacted significant rule changes, including an emergency order issued on July 15, 2008 and extended on July 29, 2009, that imposed enhanced requirements on short sales of publicly traded securities of certain financial firms.

The Commission also adopted three amendments to Regulation SHO on September 17, 2008. First, the Commission adopted on an interim final basis Rule 204T, which requires short sellers and their broker-dealers to deliver securities by the close of business on the settlement date and imposes penalties for failure to do so. This rule was made permanent in July 2009 as Rule 204. Second, the Commission adopted a final rule to eliminate the options market maker exception from the close-out requirement of Rule 203(b)(3) in Regulation SHO. Third, the Commission adopted Rule 10b-21, which expressly targets fraudulent short selling transactions and makes clear that those who lie about their intention or ability to deliver securities in time for settlement are violating the law. See Exchange Act Release No. 58572 (Sept. 17, 2008); *SEC Issues New Rules to Protect Investors Against Naked Short Selling Abuses,* SEC Press Release 2008-204 (Sept. 17, 2008).

4. **Please provide any records of warnings or referrals received by the SEC from state or local officials related to subprime lending and securitizations, and discussions between the SEC and state or local officials related to subprime lending and securitizations, including any action taken by the SEC in response to those warnings, referrals or discussions.**

The bracketed text below contains information that is non-public and confidential. Accordingly, we request that this confidential information be treated in accordance with the Non-Disclosure Commitment of January 21, 2010.

Staff is not aware of records of warnings or referrals from state or local officials related to subprime lending and securitizations. [After the opening of SEC investigations in connection with these issues, staff has had communications with various state authorities about a variety of subprime lending and securitization issues.]

APPENDIX 1

6. For the investment banks that were part of the CSE program, please provide data concerning the leverage of the investment bank holding companies and their broker dealers for each year from 1995 to present.

Attached is data regarding leverage at CSE holding companies and CSE broker-dealers, as well as a chart regarding asset composition at CSE broker-dealers. Each CSE investment bank holding company entered the CSE program on the following dates: The Bear Stearns Companies Inc. on November 30, 2005; Lehman Brothers Holdings Inc. on November 9, 2005; The Goldman Sachs Group Inc. on March 23, 2005; Merrill Lynch & Co., Inc. on December 23, 2004; and Morgan Stanley on July 28, 2005.

<u>Holding Company Leverage</u>:

The first document is a graph which depicts leverage at the CSE holding companies,[1] followed by a table containing the data used in creating the graphs.

The holding company leverage represents the holding company's total assets divided by the holding company's Total Shareholders' Equity (Common Equity + Minority Interest + Preferred Equity).

With respect to the table containing the supporting data, the data for the leverage metric was obtained from public reports available on Bloomberg. Where available, the data includes total assets, total shareholders' equity, and the leverage ratio for all quarters from 1995 through September 2009. Data is not provided for periods in which the firm was not a public company or was subsequently reorganized. In addition, for The Bear Stearns Companies Inc., Lehman Brothers Holdings Inc., and Merrill Lynch & Co., Inc., the data provided ends in 4th quarter 2007, 2nd quarter 2008, and 4th quarter 2008 respectively.

<u>Broker-Dealer Leverage Ratios</u>:

Beginning on the seventh page of the attached is a table containing the CSE broker-dealer leverage ratios.[2] The table provides seven different leverage ratios for each broker-dealer:

1. Broker-dealer Assets over Ownership Equity: represents the broker-dealer's total assets divided by the broker-dealer's ownership equity.

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[1] Data is provided for the CSE holding companies: The Bear Stearns Companies Inc., Lehman Brothers Holdings Inc., The Goldman Sachs Group Inc., Merrill Lynch & Co., Inc., and Morgan Stanley.

[2] Data is provided for the CSE broker-dealers: Bear Stearns & Co. Inc & Subsidiaries, Goldman Sachs & Co., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Inc., and Morgan Stanley & Co., Inc.

2. Broker-dealer Adjusted Assets over Ownership Equity: represents the broker-dealer's total assets less securities borrowed and reverse repurchase agreements divided by ownership equity.

3. Broker-dealer Assets over Regulatory Capital: represents the broker-dealer's total assets divided by the broker-dealer's regulatory capital. Regulatory Capital represents total capital and allowable subordinated liabilities.

4. Broker-dealer Adjusted Assets over Regulatory Capital: represents the broker-dealer's total assets less securities borrowed and reverse repurchase agreements divided by regulatory capital. Regulatory Capital represents total capital and allowable subordinated liabilities.

5. Broker-dealer Long Inventory over Regulatory Capital: represents the broker-dealer's long securities and spot commodities inventory divided by Regulatory Capital. Total long positions represents the broker-dealer's total long proprietary positions. Regulatory Capital represents ownership equity plus subordinated debt among other items.

6. Broker-dealer Adjusted Assets Minus U.S. Government and Agency Obligations over Regulatory Capital: represents broker-dealer total assets less securities borrowed, reverse repurchase agreements, U.S. Treasury securities, and U.S. Government agency and government sponsored entities ("GSE") securities. Regulatory Capital represents total capital and allowable subordinated liabilities.

7. Broker-dealer Long Inventory Minus U.S. Government and Agency Obligations over Regulatory Capital: represents the broker-dealer's long securities and spot commodities inventory over regulatory capital. Total long positions represents the broker-dealer's total long proprietary positions. Regulatory Capital represents total capital and allowable subordinated liabilities.

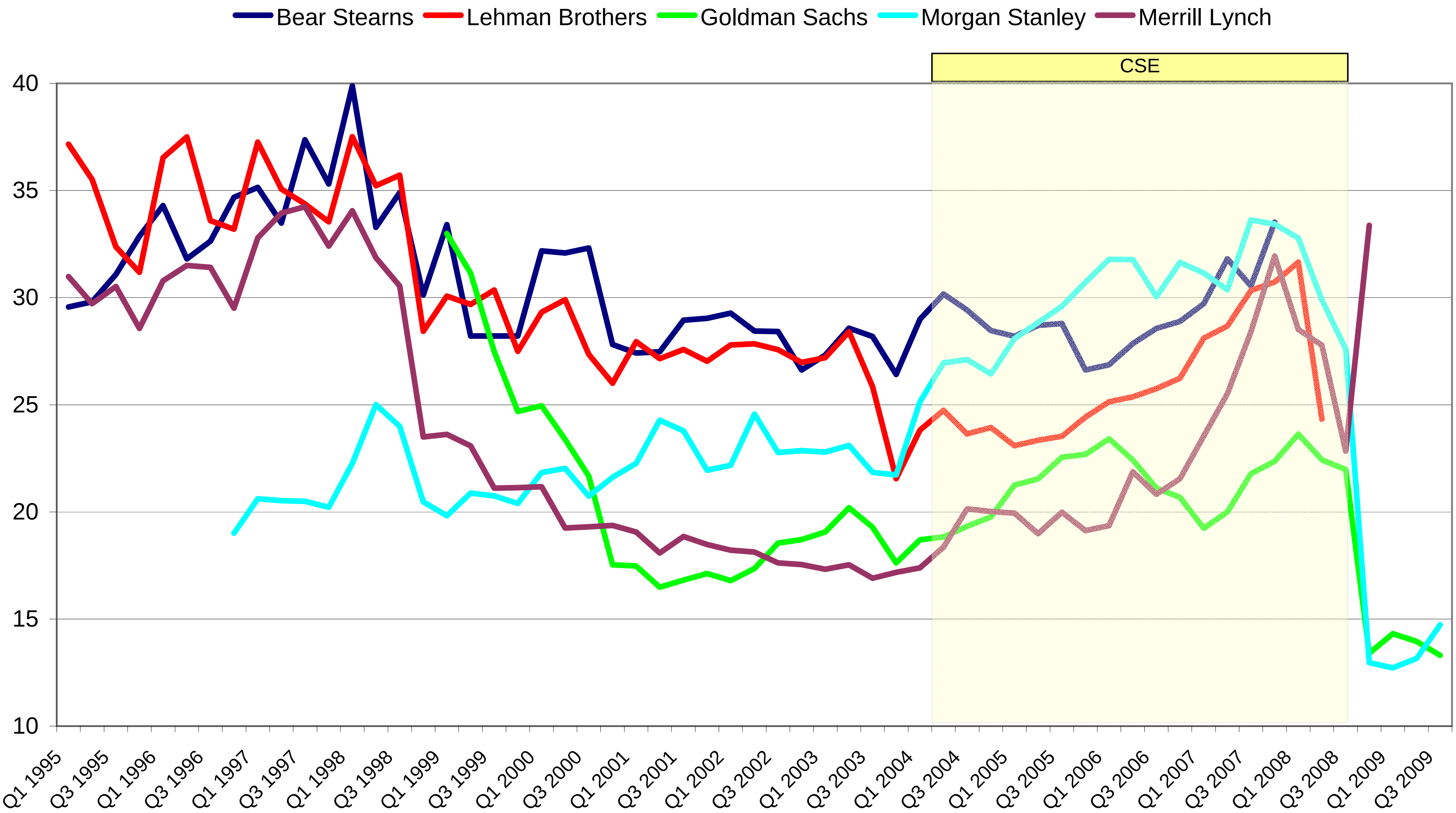
The data for the CSE broker-dealers' leverage metrics was obtained from the broker-dealer's monthly FOCUS filings. The first five sets of CSE broker-dealer metrics are provided from the 1st quarter of 1995 through the 3rd quarter of 2009 (or until the firm stopped filing FOCUS reports or was acquired by another firm). The sixth and seventh leverage ratios are provided for the first quarter in which the data was available (in all cases sometime in 2005) as the CSE broker-dealers' FOCUS reports were revised post-CSE approval. The CSE FOCUS reports included lines for (1) U.S. treasury and (2) U.S. Agency and GSE securities.

<u>CSE Broker-Dealer Asset Composition Graphs</u>:

Pages 11 and 12 of the attached contain graphs that show the quarterly trends in (1) Total Assets and in (2) Stock borrowed, Reverse Repurchase Agreements, U.S. Treasury securities and U.S. Agency and GSE securities combined. These graphs are provided to show the amount of the CSE broker-dealers' total assets which are comprised of relatively low risk assets. Again, these line items were available in the FOCUS reports starting during the 2005 timeframe.

Holding Company Leverage

(Total Assets / Total Shareholders Equity)



Source: Bloomberg Financial Services

Total Shareholders Equity = Common Equity + Minority Interest + Preferred Equity

Holding Company Leverage Ratio

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998
Bear Stearns													
Total Assets	$ 69,748	$ 74,597	$ 79,517	$ 86,019	$ 91,444	$ 92,085	$ 95,750	$ 105,396	$ 116,996	$ 121,434	$ 140,951	$ 137,511	$ 166,374
Total Shareholders Equity	$ 2,359	$ 2,502	$ 2,558	$ 2,617	$ 2,666	$ 2,895	$ 2,934	$ 3,038	$ 3,329	$ 3,626	$ 3,772	$ 3,894	$ 4,172
Assets / Shareholders Equity	29.56	29.81	31.09	32.87	34.30	31.80	32.64	34.69	35.15	33.49	37.37	35.31	39.88
Lehman Brothers													
Total Assets	$ 127,304	$ 123,421	$ 117,518	$ 115,303	$ 128,702	$ 133,725	$ 125,666	$ 128,596	$ 149,493	$ 145,118	$ 147,894	$ 151,705	$ 175,643
Total Shareholders Equity	$ 3,426	$ 3,475	$ 3,631	$ 3,698	$ 3,523	$ 3,566	$ 3,741	$ 3,874	$ 4,012	$ 4,138	$ 4,303	$ 4,523	$ 4,683
Assets / Shareholders Equity	37.16	35.52	32.37	31.18	36.53	37.50	33.59	33.19	37.26	35.07	34.37	33.54	37.51
Goldman Sachs													
Total Assets													
Total Shareholders Equity													
Assets / Shareholders Equity													
Morgan Stanley													
Total Assets								$ 238,860	$ 267,032	$ 269,984	$ 282,480	$ 302,287	$ 345,534
Total Shareholders Equity								$ 12,567	$ 12,955	$ 13,155	$ 13,786	$ 14,955	$ 15,523
Assets / Shareholders Equity								19.01	20.61	20.52	20.49	20.21	22.26
Merrill Lynch													
Total Assets	$ 176,733	$ 174,853	$ 185,473	$ 176,857	$ 195,884	$ 205,175	$ 207,911	$ 213,016	$ 247,603	$ 268,036	$ 288,430	$ 296,980	$ 353,424
Total Shareholders Equity	$ 5,704	$ 5,883	$ 6,077	$ 6,192	$ 6,364	$ 6,514	$ 6,618	$ 7,219	$ 7,552	$ 7,895	$ 8,424	$ 9,166	$ 10,378
Assets / Shareholders Equity	30.98	29.72	30.52	28.56	30.78	31.50	31.42	29.51	32.79	33.95	34.24	32.40	34.06

Source: Bloomberg Financial Services

Total Shareholders Equity =
Common Equity
+ Minority Interest
+ Preferred Equity

Holding Company Leverage Ratio

	Q2 1998	Q3 1998	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001
Bear Stearns												
Total Assets	$ 154,496	$ 163,074	$ 151,131	$ 166,645	$ 153,894	$ 153,894	$ 153,894	$ 175,010	$ 172,151	$ 174,853	$ 171,167	$ 167,817
Total Shareholders Equity	$ 4,642	$ 4,673	$ 5,017	$ 4,989	$ 5,456	$ 5,456	$ 5,456	$ 5,437	$ 5,365	$ 5,412	$ 6,154	$ 6,121
Assets / Shareholders Equity	33.29	34.90	30.13	33.40	28.21	28.21	28.21	32.19	32.09	32.31	27.81	27.41
Lehman Brothers												
Total Assets	$ 179,067	$ 191,074	$ 153,890	$ 179,305	$ 191,543	$ 202,149	$ 192,244	$ 213,889	$ 233,433	$ 225,668	$ 224,720	$ 236,287
Total Shareholders Equity	$ 5,084	$ 5,349	$ 5,413	$ 5,964	$ 6,453	$ 6,660	$ 6,993	$ 7,296	$ 7,806	$ 8,250	$ 8,641	$ 8,457
Assets / Shareholders Equity	35.22	35.72	28.43	30.06	29.68	30.35	27.49	29.32	29.90	27.35	26.01	27.94
Goldman Sachs												
Total Assets				$ 230,624	$ 244,632	$ 236,273	$ 250,491	$ 276,894	$ 278,319	$ 275,004	$ 289,760	$ 304,812
Total Shareholders Equity				$ 6,991	$ 7,856	$ 8,597	$ 10,145	$ 11,096	$ 11,905	$ 12,693	$ 16,530	$ 17,438
Assets / Shareholders Equity				32.99	31.14	27.48	24.69	24.95	23.38	21.67	17.53	17.48
Morgan Stanley												
Total Assets	$ 380,665	$ 360,929	$ 317,590	$ 321,778	$ 342,345	$ 340,870	$ 366,967	$ 408,072	$ 417,586	$ 404,123	$ 426,794	$ 450,097
Total Shareholders Equity	$ 15,224	$ 15,041	$ 15,518	$ 16,236	$ 16,396	$ 16,428	$ 17,997	$ 18,691	$ 18,949	$ 19,493	$ 19,741	$ 20,221
Assets / Shareholders Equity	25.00	24.00	20.47	19.82	20.88	20.75	20.39	21.83	22.04	20.73	21.62	22.26
Merrill Lynch												
Total Assets	$ 365,451	$ 353,419	$ 299,804	$ 314,620	$ 324,740	$ 312,936	$ 328,071	$ 363,944	$ 355,108	$ 383,904	$ 407,200	$ 431,604
Total Shareholders Equity	$ 11,468	$ 11,572	$ 12,759	$ 13,319	$ 14,073	$ 14,823	$ 15,527	$ 17,192	$ 18,449	$ 19,891	$ 21,018	$ 22,647
Assets / Shareholders Equity	31.87	30.54	23.50	23.62	23.08	21.11	21.13	21.17	19.25	19.30	19.37	19.06

Source: Bloomberg Financial Services

Total Shareholders Equity =
Common Equity
+ Minority Interest
+ Preferred Equity

Holding Company Leverage Ratio

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Bear Stearns												
Total Assets	$ 173,005	$ 171,105	$ 185,530	$ 185,154	$ 185,628	$ 185,223	$ 184,854	$ 193,776	$ 207,911	$ 209,693	$ 212,168	$ 226,651
Total Shareholders Equity	$ 6,297	$ 5,911	$ 6,391	$ 6,323	$ 6,526	$ 6,517	$ 6,945	$ 7,092	$ 7,277	$ 7,438	$ 8,033	$ 7,818
Assets / Shareholders Equity	27.47	28.95	29.03	29.28	28.45	28.42	26.62	27.32	28.57	28.19	26.41	28.99
Lehman Brothers												
Total Assets	$ 235,936	$ 243,337	$ 247,816	$ 260,061	$ 267,787	$ 265,213	$ 260,336	$ 268,293	$ 302,410	$ 291,638	$ 312,061	$ 328,064
Total Shareholders Equity	$ 8,689	$ 8,821	$ 9,169	$ 9,358	$ 9,616	$ 9,619	$ 9,652	$ 9,867	$ 10,645	$ 11,286	$ 14,484	$ 13,776
Assets / Shareholders Equity	27.15	27.59	27.03	27.79	27.85	27.57	26.97	27.19	28.41	25.84	21.55	23.81
Goldman Sachs												
Total Assets	$ 297,038	$ 302,029	$ 312,218	$ 310,483	$ 327,238	$ 349,526	$ 355,574	$ 371,968	$ 404,698	$ 394,142	$ 403,799	$ 443,285
Total Shareholders Equity	$ 18,016	$ 17,958	$ 18,231	$ 18,495	$ 18,858	$ 18,844	$ 19,003	$ 19,514	$ 20,042	$ 20,438	$ 22,913	$ 23,711
Assets / Shareholders Equity	16.49	16.82	17.13	16.79	17.35	18.55	18.71	19.06	20.19	19.28	17.62	18.70
Morgan Stanley												
Total Assets	$ 497,381	$ 505,782	$ 482,628	$ 491,651	$ 553,924	$ 516,772	$ 529,499	$ 559,436	$ 586,881	$ 580,632	$ 602,843	$ 656,898
Total Shareholders Equity	$ 20,489	$ 21,265	$ 21,992	$ 22,168	$ 22,552	$ 22,692	$ 23,161	$ 24,541	$ 25,407	$ 26,583	$ 27,743	$ 26,130
Assets / Shareholders Equity	24.28	23.78	21.95	22.18	24.56	22.77	22.86	22.80	23.10	21.84	21.73	25.14
Merrill Lynch												
Total Assets	$ 423,071	$ 448,606	$ 419,419	$ 429,167	$ 439,426	$ 439,764	$ 447,928	$ 455,587	$ 481,075	$ 485,767	$ 496,143	$ 524,997
Total Shareholders Equity	$ 23,398	$ 23,801	$ 22,703	$ 23,558	$ 24,249	$ 24,955	$ 25,533	$ 26,299	$ 27,441	$ 28,743	$ 28,884	$ 30,187
Assets / Shareholders Equity	18.08	18.85	18.47	18.22	18.12	17.62	17.54	17.32	17.53	16.90	17.18	17.39

Source: Bloomberg Financial Services

Total Shareholders Equity =
Common Equity
+ Minority Interest
+ Preferred Equity

Holding Company Leverage Ratio

	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
Bear Stearns												
Total Assets	$ 241,595	$ 237,329	$ 255,950	$ 268,429	$ 276,782	$ 284,527	$ 287,293	$ 300,023	$ 326,180	$ 334,760	$ 350,433	$ 394,512
Total Shareholders Equity	$ 8,007	$ 8,068	$ 8,991	$ 9,519	$ 9,642	$ 9,881	$ 10,791	$ 11,166	$ 11,708	$ 11,722	$ 12,129	$ 13,274
Assets / Shareholders Equity	30.17	29.42	28.47	28.20	28.71	28.80	26.62	26.87	27.86	28.56	28.89	29.72
Lehman Brothers												
Total Assets	$ 346,499	$ 340,890	$ 357,168	$ 363,692	$ 370,595	$ 384,295	$ 410,063	$ 439,796	$ 456,202	$ 473,737	$ 503,545	$ 562,283
Total Shareholders Equity	$ 14,006	$ 14,421	$ 14,920	$ 15,754	$ 15,878	$ 16,334	$ 16,794	$ 17,493	$ 17,982	$ 18,396	$ 19,191	$ 20,005
Assets / Shareholders Equity	24.74	23.64	23.94	23.09	23.34	23.53	24.42	25.14	25.37	25.75	26.24	28.11
Goldman Sachs												
Total Assets	$ 467,921	$ 486,686	$ 531,379	$ 596,149	$ 624,472	$ 669,518	$ 706,804	$ 758,821	$ 798,884	$ 798,309	$ 838,201	$ 912,495
Total Shareholders Equity	$ 24,847	$ 25,185	$ 26,888	$ 28,047	$ 28,989	$ 29,685	$ 31,166	$ 32,422	$ 35,615	$ 37,814	$ 40,545	$ 47,426
Assets / Shareholders Equity	18.83	19.32	19.76	21.26	21.54	22.55	22.68	23.40	22.43	21.11	20.67	19.24
Morgan Stanley												
Total Assets	$ 729,501	$ 745,033	$ 747,334	$ 802,210	$ 818,711	$ 837,391	$ 898,523	$ 959,613	$ 1,027,043	$ 1,028,872	$ 1,121,192	$ 1,182,061
Total Shareholders Equity	$ 27,068	$ 27,486	$ 28,272	$ 28,561	$ 28,396	$ 28,292	$ 29,248	$ 30,189	$ 32,321	$ 34,238	$ 35,430	$ 37,954
Assets / Shareholders Equity	26.95	27.11	26.43	28.09	28.83	29.60	30.72	31.79	31.78	30.05	31.65	31.14
Merrill Lynch												
Total Assets	$ 548,435	$ 606,681	$ 628,098	$ 655,575	$ 627,316	$ 671,971	$ 681,015	$ 732,240	$ 799,188	$ 804,724	$ 841,299	$ 981,814
Total Shareholders Equity	$ 29,884	$ 30,121	$ 31,370	$ 32,876	$ 33,041	$ 33,630	$ 35,600	$ 37,825	$ 36,541	$ 38,651	$ 39,038	$ 41,707
Assets / Shareholders Equity	18.35	20.14	20.02	19.94	18.99	19.98	19.13	19.36	21.87	20.82	21.55	23.54

Source: Bloomberg Financial Services

Total Shareholders Equity =
Common Equity
+ Minority Interest
+ Preferred Equity

Holding Company Leverage Ratio

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Bear Stearns										
Total Assets	$ 423,304	$ 397,091	$ 395,362							
Total Shareholders Equity	$ 13,308	$ 13,000	$ 11,793							
Assets / Shareholders Equity	31.81	30.54	33.53							
Lehman Brothers										
Total Assets	$ 605,861	$ 659,216	$ 691,063	$ 786,035	$ 639,432					
Total Shareholders Equity	$ 21,129	$ 21,733	$ 22,490	$ 24,832	$ 26,276					
Assets / Shareholders Equity	28.67	30.33	30.73	31.65	24.34					
Goldman Sachs										
Total Assets	$ 943,196	$ 1,045,778	$ 1,119,796	$ 1,189,006	$ 1,088,145	$ 1,081,773	$ 884,547	$ 925,290	$ 889,544	$ 882,185
Total Shareholders Equity	$ 47,176	$ 48,025	$ 50,065	$ 50,316	$ 48,505	$ 49,220	$ 66,012	$ 64,627	$ 63,751	$ 66,311
Assets / Shareholders Equity	19.99	21.78	22.37	23.63	22.43	21.98	13.40	14.32	13.95	13.30
Morgan Stanley										
Total Assets	$ 1,199,993	$ 1,185,131	$ 1,045,409	$ 1,090,896	$ 1,031,228	$ 987,403	$ 658,812	$ 626,023	$ 676,957	$ 769,503
Total Shareholders Equity	$ 39,511	$ 35,250	$ 31,269	$ 33,280	$ 34,493	$ 35,765	$ 50,831	$ 49,207	$ 51,463	$ 52,224
Assets / Shareholders Equity	30.37	33.62	33.43	32.78	29.90	27.61	12.96	12.72	13.15	14.73
Merrill Lynch										
Total Assets	$ 1,076,324	$ 1,097,188	$ 1,020,050	$ 1,042,054	$ 966,210	$ 875,780	$ 667,543			
Total Shareholders Equity	$ 42,191	$ 38,626	$ 31,932	$ 36,542	$ 34,778	$ 38,355	$ 20,003			
Assets / Shareholders Equity	25.51	28.41	31.94	28.52	27.78	22.83	33.37			

Source: Bloomberg Financial Services

Total Shareholders Equity =
Common Equity
+ Minority Interest
+ Preferred Equity

Broker Dealer Leverage Ratios

BEAR STEARNS & CO INC

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998
Total Assets/Ownership Equity	20.9	22.4	20.5	22.6	21.6	20.0	21.5	23.3	23.4	24.7	26.5	25.7	24.1	27.3	27.1
Adjusted Assets*/Ownership Equity	7.8	9.7	8.6	10.9	10.0	9.9	10.3	11.5	13.0	12.6	13.9	11.8	12.8	13.0	14.1
Total Assets / Regulatory Capital	12.4	13.4	11.7	13.2	12.8	12.1	13.1	13.8	11.8	12.5	13.7	12.3	11.8	12.5	12.5
Adjusted Assets / Regulatory Capital	4.6	5.8	4.9	6.4	5.9	6.0	6.3	6.9	6.5	6.4	7.2	5.7	6.3	5.9	6.5
Inventory / Regulatory Capital	4.0	5.2	4.4	5.9	5.4	5.4	5.6	6.2	5.7	5.7	6.5	4.9	5.5	5.2	5.8
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

GOLDMAN SACHS & CO

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998
Total Assets/Ownership Equity	53.6	60.1	50.5	53.0	51.9	59.4	63.4	80.2	65.4	60.6	51.3	64.8	59.2	68.8	68.1
Adjusted Assets*/Ownership Equity	16.2	18.6	16.6	19.8	15.3	18.0	15.8	29.7	19.1	19.0	16.0	24.3	23.6	24.3	23.8
Total Assets / Regulatory Capital	22.7	22.6	22.2	22.1	23.4	22.9	26.2	28.5	27.1	27.2	25.2	25.2	25.8	24.7	25.2
Adjusted Assets / Regulatory Capital	6.9	7.0	7.3	8.2	6.9	6.9	6.5	10.6	7.9	8.5	7.9	9.5	10.3	8.7	8.8
Inventory / Regulatory Capital	4.8	5.0	5.0	6.3	4.9	4.6	4.6	8.3	6.1	6.6	6.0	7.4	7.6	6.7	6.5
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

LEHMAN BROTHERS INC.

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998
Total Assets/Ownership Equity	11.3	11.3	66.1	73.8	79.9	74.2	71.5	84.4	64.1	63.4	71.9	71.0	62.6	61.6	60.1
Adjusted Assets*/Ownership Equity	5.0	5.3	19.2	24.0	24.4	20.4	21.3	27.6	21.6	23.8	23.0	23.0	21.2	21.8	25.4
Total Assets / Regulatory Capital	6.0	5.8	26.3	28.9	30.2	27.0	25.2	25.9	20.0	20.0	23.0	23.3	21.4	22.5	22.2
Adjusted Assets / Regulatory Capital	2.7	2.7	7.6	9.4	9.2	7.4	7.5	8.5	6.7	7.5	7.4	7.6	7.2	8.0	9.4
Inventory / Regulatory Capital	1.0	1.3	6.5	8.2	7.1	6.1	6.1	6.8	5.0	6.1	5.7	6.2	5.8	6.3	7.8
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

MERRILL LYNCH P F & S INC.

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998
Total Assets/Ownership Equity	16.8	15.8	15.5	14.0	14.7	14.4	16.3	15.1	18.0	19.3	19.6	16.7	19.1	19.8	18.3
Adjusted Assets*/Ownership Equity	8.8	8.3	8.8	8.2	7.9	8.0	8.9	8.5	9.9	10.3	10.9	9.4	10.2	10.7	9.9
Total Assets / Regulatory Capital	9.8	9.1	9.3	8.6	8.2	8.0	8.5	7.7	8.3	7.8	8.3	6.7	7.8	8.1	7.2
Adjusted Assets / Regulatory Capital	5.1	4.7	5.2	5.0	4.4	4.5	4.7	4.3	4.5	4.1	4.6	3.8	4.2	4.4	3.9
Inventory / Regulatory Capital	2.9	2.5	3.1	2.6	2.3	2.2	2.5	2.3	2.5	2.1	2.5	1.9	2.4	2.5	2.1
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

MORGAN STANLEY & CO INC

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998
Total Assets/Ownership Equity	61.0	60.5	59.6	66.1	68.8	72.8	71.5	81.0	83.8	83.5	90.4	71.8	80.8	87.1	85.4
Adjusted Assets*/Ownership Equity	15.3	15.3	16.6	17.7	16.5	16.3	15.2	20.2	19.0	20.6	24.2	18.7	25.5	23.3	20.2
Total Assets / Regulatory Capital	26.7	28.0	28.4	26.6	28.6	29.5	29.6	28.9	28.8	28.4	30.9	25.8	30.3	33.1	30.1
Adjusted Assets / Regulatory Capital	6.7	7.1	7.9	7.1	6.9	6.6	6.3	7.2	6.5	7.0	8.3	6.7	9.6	8.9	7.1
Inventory / Regulatory Capital	4.5	5.0	5.7	5.6	5.1	4.6	4.4	5.3	4.6	4.9	4.7	4.2	4.6	4.8	3.6
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

** Adjusted Assets = Total Assets less Stock Borrowed and Reverse Repurchase Agreements.*

** Regulatory capital = total capital and allowable subordinated liabilities.*

Source: Broker-Dealer FOCUS filings

Broker Dealer Leverage Ratios

BEAR STEARNS & CO INC

	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total Assets/Ownership Equity	27.2	27.1	25.1	22.3	25.4	25.5	30.0	27.9	29.5	31.9	32.8	33.9	36.0	38.2	35.4
Adjusted Assets*/Ownership Equity	11.3	13.9	10.9	9.7	9.6	9.7	12.0	11.4	12.0	12.4	11.9	12.4	13.6	14.9	14.2
Total Assets / Regulatory Capital	12.8	13.1	12.3	11.1	13.0	13.2	15.5	14.0	14.9	15.9	16.5	17.2	24.1	25.9	24.0
Adjusted Assets / Regulatory Capital	5.3	6.7	5.4	4.8	4.9	5.0	6.2	5.7	6.0	6.2	6.0	6.3	9.1	10.1	9.7
Inventory / Regulatory Capital	4.7	5.3	4.6	4.2	4.1	4.1	5.4	5.0	5.2	5.5	5.2	5.5	7.0	7.0	7.0
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

GOLDMAN SACHS & CO

	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total Assets/Ownership Equity	63.4	61.1	72.4	67.3	54.1	59.0	55.5	65.8	64.1	61.1	65.8	61.6	58.0	62.8	63.1
Adjusted Assets*/Ownership Equity	20.5	19.0	24.1	21.8	18.1	23.8	19.2	24.7	22.9	21.8	21.6	23.9	21.6	22.1	26.4
Total Assets / Regulatory Capital	23.7	23.7	25.9	24.5	19.4	23.7	23.0	22.7	24.4	24.9	26.5	25.8	25.4	25.8	27.2
Adjusted Assets / Regulatory Capital	7.7	7.4	8.6	7.9	6.5	9.5	8.0	8.5	8.7	8.9	8.7	10.0	9.5	9.1	11.4
Inventory / Regulatory Capital	5.2	5.0	5.9	4.9	4.0	6.4	4.9	5.8	5.7	6.4	6.3	6.7	6.8	6.8	9.3
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

LEHMAN BROTHERS INC.

	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total Assets/Ownership Equity	51.1	44.7	45.5	41.8	47.9	43.8	42.9	40.9	44.5	39.9	48.6	55.3	50.3	48.0	42.8
Adjusted Assets*/Ownership Equity	20.3	16.5	16.9	15.1	15.7	15.2	14.6	14.6	15.8	14.6	16.6	23.5	19.7	18.3	17.0
Total Assets / Regulatory Capital	19.8	18.1	19.4	18.3	22.2	21.2	21.3	20.9	23.0	21.8	21.5	24.8	23.4	24.2	21.8
Adjusted Assets / Regulatory Capital	7.9	6.7	7.2	6.6	7.3	7.4	7.2	7.4	8.1	8.0	7.3	10.6	9.2	9.2	8.7
Inventory / Regulatory Capital	6.2	5.6	6.0	5.4	6.2	6.1	5.8	6.1	6.9	6.6	6.1	7.6	6.4	7.1	7.1
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

MERRILL LYNCH P F & S INC.

	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total Assets/Ownership Equity	15.0	15.8	15.7	14.1	14.5	16.4	16.1	16.2	15.3	13.8	14.4	13.1	15.4	15.5	15.8
Adjusted Assets*/Ownership Equity	7.7	7.8	8.2	8.0	8.5	8.9	10.1	9.4	10.4	8.2	8.3	8.0	8.3	8.0	8.4
Total Assets / Regulatory Capital	6.4	6.8	6.9	6.3	6.7	7.2	6.7	6.8	6.6	5.7	6.0	5.4	6.2	6.1	6.4
Adjusted Assets / Regulatory Capital	3.3	3.4	3.6	3.6	3.9	3.9	4.2	3.9	4.5	3.4	3.5	3.3	3.3	3.2	3.4
Inventory / Regulatory Capital	1.4	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.4	1.3	1.5	1.6	1.5	1.9
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

MORGAN STANLEY & CO INC

	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
Total Assets/Ownership Equity	73.2	73.8	68.4	73.1	63.2	63.1	62.0	63.7	64.1	62.1	67.7	70.8	66.4	69.5	68.4
Adjusted Assets*/Ownership Equity	19.2	17.6	15.0	17.7	17.1	14.6	13.2	15.0	13.6	14.7	19.7	20.1	17.8	17.9	17.7
Total Assets / Regulatory Capital	27.7	28.9	27.6	28.9	28.8	30.7	31.1	31.5	34.8	32.3	38.3	33.0	33.6	35.8	35.4
Adjusted Assets / Regulatory Capital	7.3	6.9	6.1	7.0	7.8	7.1	6.6	7.4	7.4	7.7	11.1	9.4	9.0	9.2	9.1
Inventory / Regulatory Capital	4.0	4.4	3.6	4.7	4.8	4.4	4.0	4.7	4.6	4.7	5.5	4.4	4.4	5.0	5.1
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital															
(Inventory - Treasuries - Agencies)/Regulatory Capital															

** Adjusted Assets = Total Assets less Stock Borrowed and Reverse Repurchase Agreements.*

** Regulatory capital = total capital and allowable subordinated liabilities.*

Source: Broker-Dealer FOCUS filings

Broker Dealer Leverage Ratios

BEAR STEARNS & CO INC

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Total Assets/Ownership Equity	38.0	35.6	36.7	36.4	34.5	35.8	35.5	33.1	33.3	49.1	47.0	45.1	45.4	44.1	40.2
Adjusted Assets*/Ownership Equity	14.3	14.8	16.4	14.5	13.5	12.3	11.9	10.8	11.1	16.0	16.4	17.0	18.9	18.9	18.6
Total Assets / Regulatory Capital	24.0	22.5	21.7	20.1	19.1	22.3	22.5	21.9	21.4	24.3	21.0	18.9	20.3	18.9	18.5
Adjusted Assets / Regulatory Capital	9.1	9.3	9.7	8.0	7.5	7.6	7.5	7.1	7.1	7.9	7.3	7.1	8.5	8.1	8.6
Inventory / Regulatory Capital	6.5	6.6	6.9	5.8	5.6	6.1	5.7	5.5	5.1	5.8	5.7	5.1	6.1	5.8	5.8
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital														5.9	7.6
(Inventory - Treasuries - Agencies)/Regulatory Capital														3.6	4.9

GOLDMAN SACHS & CO

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Total Assets/Ownership Equity	65.7	65.1	67.6	80.2	80.5	90.9	96.8	107.4	117.3	108.5	104.5	112.3	119.3	110.9	112.6
Adjusted Assets*/Ownership Equity	23.5	23.3	26.3	33.7	28.9	36.2	33.9	35.0	45.5	35.0	35.5	36.6	39.4	34.8	34.0
Total Assets / Regulatory Capital	27.0	25.4	25.9	26.7	25.8	28.2	27.6	28.2	28.8	28.5	26.3	28.8	30.9	30.3	32.7
Adjusted Assets / Regulatory Capital	9.7	9.1	10.1	11.2	9.3	11.2	9.6	9.2	11.1	9.2	8.9	9.4	10.2	9.5	9.9
Inventory / Regulatory Capital	7.6	7.2	7.9	8.5	7.3	9.5	8.1	7.5	9.6	7.0	6.9	7.3	7.6	7.3	7.6
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital												5.5	6.5	6.3	6.5
(Inventory - Treasuries - Agencies)/Regulatory Capital												3.4	4.0	4.1	4.1

LEHMAN BROTHERS INC.

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Total Assets/Ownership Equity	56.7	58.0	50.6	56.3	52.5	63.8	60.2	55.9	55.1	70.2	63.3	59.3	72.7	70.7	59.6
Adjusted Assets*/Ownership Equity	21.5	20.0	17.7	22.3	19.4	20.5	19.1	19.4	19.2	22.9	19.3	20.3	22.0	21.2	18.2
Total Assets / Regulatory Capital	23.5	25.1	23.1	26.9	24.9	26.4	25.8	25.7	25.6	27.8	26.4	25.7	27.5	28.7	26.2
Adjusted Assets / Regulatory Capital	8.9	8.6	8.1	10.7	9.2	8.5	8.2	8.9	8.9	9.1	8.1	8.8	8.3	8.6	8.0
Inventory / Regulatory Capital	6.9	6.5	5.8	6.4	6.4	6.4	6.2	6.2	6.5	6.2	5.6	6.4	6.4	6.9	6.3
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital														5.4	5.0
(Inventory - Treasuries - Agencies)/Regulatory Capital														3.7	3.3

MERRILL LYNCH P F & S INC.

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Total Assets/Ownership Equity	14.8	14.0	14.3	15.8	14.5	15.9	17.3	18.1	18.3	19.6	24.2	27.7	26.5	29.5	36.8
Adjusted Assets*/Ownership Equity	7.3	7.4	7.3	8.3	7.6	8.6	8.7	9.4	8.7	9.4	11.2	12.7	11.4	13.0	15.6
Total Assets / Regulatory Capital	6.2	5.9	6.3	7.4	6.9	7.8	7.8	7.9	8.1	8.5	9.9	11.3	10.8	11.5	13.6
Adjusted Assets / Regulatory Capital	3.1	3.1	3.2	3.9	3.6	4.2	4.0	4.1	3.9	4.1	4.6	5.2	4.6	5.1	5.7
Inventory / Regulatory Capital	1.6	1.7	1.9	2.4	2.1	2.5	2.4	2.5	2.2	2.2	2.6	2.7	2.3	2.5	2.6
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital											4.2	4.7	4.3	4.8	5.5
(Inventory - Treasuries - Agencies)/Regulatory Capital											2.2	2.2	2.0	2.2	2.4

MORGAN STANLEY & CO INC

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Total Assets/Ownership Equity	55.1	58.2	54.6	58.2	56.6	61.4	65.6	81.0	71.5	74.5	79.3	79.6	82.1	91.7	90.3
Adjusted Assets*/Ownership Equity	14.5	13.2	13.6	15.8	16.0	17.2	18.6	21.2	17.8	18.8	20.7	19.2	22.4	22.2	26.9
Total Assets / Regulatory Capital	26.9	29.2	27.9	29.1	29.3	31.1	34.5	40.6	34.4	36.6	36.6	34.4	35.1	39.5	38.9
Adjusted Assets / Regulatory Capital	7.1	6.6	6.9	7.9	8.3	8.7	9.8	10.6	8.6	9.2	9.5	8.3	9.6	9.5	11.6
Inventory / Regulatory Capital	4.4	4.4	4.5	4.3	4.8	5.0	5.5	6.2	4.7	4.4	4.7	4.6	4.5	4.5	4.7
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital														8.4	10.3
(Inventory - Treasuries - Agencies)/Regulatory Capital														3.3	3.4

** Adjusted Assets = Total Assets less Stock Borrowed and Reverse Repurchase Agreements.*

** Regulatory capital = total capital and allowable subordinated liabilities.*

Source: Broker-Dealer FOCUS filings

Broker Dealer Leverage Ratios

BEAR STEARNS & CO INC

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Total Assets/Ownership Equity	41.1	41.8	54.6	64.0	69.8	50.2	71.0	53.5
Adjusted Assets*/Ownership Equity	19.3	20.8	28.8	35.0	38.0	27.2	35.2	37.7
Total Assets / Regulatory Capital	19.0	19.5	26.1	31.6	34.3	21.5	24.6	15.5
Adjusted Assets / Regulatory Capital	9.0	9.7	13.8	17.3	18.7	11.6	12.2	10.9
Inventory / Regulatory Capital	6.3	6.8	9.9	11.6	12.7	8.8	8.9	8.9
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital	6.1	6.8	8.8	11.0	12.1	7.6	7.9	7.1
(Inventory - Treasuries - Agencies)/Regulatory Capital	3.4	3.9	4.9	5.4	6.1	4.8	4.5	5.1

GOLDMAN SACHS & CO

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Total Assets/Ownership Equity	111.5	104.1	112.2	108.6	116.2	117.8	96.9	105.7	97.9	84.2	83.3	57.4	81.0	90.8	63.6
Adjusted Assets*/Ownership Equity	33.2	33.1	35.7	33.6	36.2	34.1	29.6	34.9	27.1	30.1	43.8	20.4	28.1	30.7	24.4
Total Assets / Regulatory Capital	30.6	29.6	31.1	29.0	30.0	27.9	25.5	28.3	26.9	24.3	25.6	19.0	21.0	21.0	18.0
Adjusted Assets / Regulatory Capital	9.1	9.4	9.9	9.0	9.3	8.1	7.8	9.4	7.5	8.7	13.5	6.8	7.3	7.1	6.9
Inventory / Regulatory Capital	6.4	7.1	7.1	6.5	6.1	5.4	5.4	6.1	4.9	4.9	11.1	5.1	5.5	5.1	5.2
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital	7.0	6.9	7.3	7.1	7.5	6.6	6.1	6.9	5.7	6.4	4.2	3.0	3.4	4.0	3.7
(Inventory - Treasuries - Agencies)/Regulatory Capital	4.3	4.6	4.5	4.6	4.2	3.9	3.7	3.7	3.1	2.6	1.8	1.3	1.5	2.0	2.0

LEHMAN BROTHERS INC.

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Total Assets/Ownership Equity	56.1	71.2	82.2	72.5	90.1	84.6	99.9	102.1	96.8
Adjusted Assets*/Ownership Equity	17.8	22.3	23.7	22.6	27.7	30.8	38.0	43.3	35.9
Total Assets / Regulatory Capital	27.0	29.9	34.5	33.4	40.0	38.0	45.2	40.7	38.2
Adjusted Assets / Regulatory Capital	8.6	9.4	9.9	10.4	12.3	13.8	17.2	17.3	14.2
Inventory / Regulatory Capital	6.7	7.4	7.9	8.5	9.4	11.1	13.5	13.5	11.8
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital	5.3	5.8	6.5	6.5	8.4	8.5	10.1	9.1	6.6
(Inventory - Treasuries - Agencies)/Regulatory Capital	3.4	3.9	4.5	4.5	5.4	5.8	6.3	5.4	4.2

MERRILL LYNCH P F & S INC.

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Total Assets/Ownership Equity	37.5	35.6	34.9	42.3	45.4	52.7	67.8	97.6	102.8	102.5	52.9	21.1	20.5	20.3	18.6
Adjusted Assets*/Ownership Equity	15.9	13.7	13.7	14.1	16.2	22.3	29.7	43.1	44.5	54.5	31.0	11.2	10.4	10.4	10.4
Total Assets / Regulatory Capital	13.6	13.7	14.2	15.4	16.6	14.3	12.5	13.1	12.4	11.1	7.7	6.2	6.1	6.3	6.6
Adjusted Assets / Regulatory Capital	5.8	5.3	5.6	5.1	5.9	6.0	5.5	5.8	5.4	5.9	4.5	3.3	3.1	3.2	3.7
Inventory / Regulatory Capital	2.5	2.3	2.6	2.5	2.8	2.9	2.5	2.4	2.4	1.9	2.0	1.6	1.5	1.5	1.4
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital	5.6	4.9	5.3	4.8	5.5	5.7	5.2	5.6	5.1	5.7	4.4	3.3	3.1	3.2	3.7
(Inventory - Treasuries - Agencies)/Regulatory Capital	2.2	2.0	2.3	2.2	2.5	2.5	2.3	2.2	2.1	1.7	1.9	1.6	1.5	1.5	1.4

MORGAN STANLEY & CO INC

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Total Assets/Ownership Equity	93.5	100.3	102.2	96.8	81.2	85.9	88.1	109.2	87.5	97.7	54.7	45.2	34.6	39.4	45.1
Adjusted Assets*/Ownership Equity	29.6	30.9	34.6	36.2	31.1	29.4	30.9	36.0	27.2	42.0	20.9	14.8	12.2	15.4	14.5
Total Assets / Regulatory Capital	40.6	43.4	44.4	40.3	35.8	35.7	31.3	28.9	26.3	26.7	14.7	14.5	13.8	17.4	20.3
Adjusted Assets / Regulatory Capital	12.8	13.4	15.0	15.1	13.7	12.2	11.0	9.5	8.2	11.5	5.6	4.7	4.9	6.8	6.5
Inventory / Regulatory Capital	6.2	6.1	6.2	6.3	5.6	5.1	4.3	3.8	4.0	6.6	3.5	2.9	3.4	5.1	4.6
(Adjusted Assets - Treasuries - Agencies)/Regulatory Capital	11.3	11.7	13.6	13.6	12.6	11.1	10.2	8.6	7.4	8.5	4.4	3.6	3.0	3.8	4.3
(Inventory - Treasuries - Agencies)/Regulatory Capital	4.6	4.5	4.8	4.8	4.5	3.9	3.5	2.9	3.2	3.7	2.3	1.8	1.5	2.1	2.4

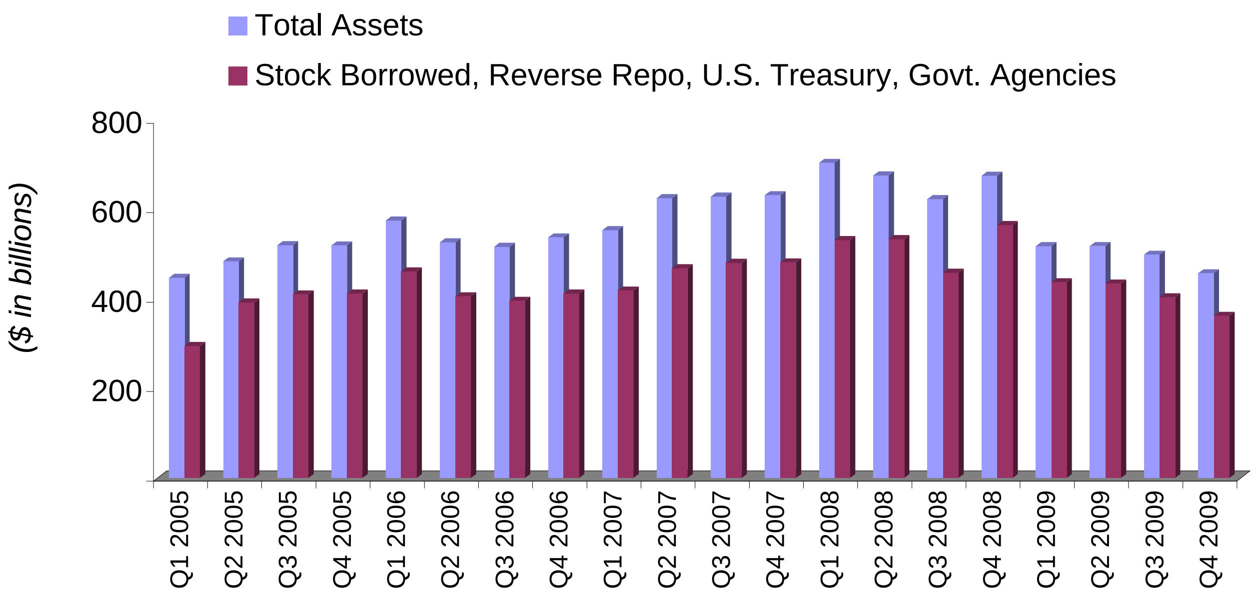
** Adjusted Assets = Total Assets less Stock Borrowed and Reverse Repurchase Agreements.*

** Regulatory capital = total capital and allowable subordinated liabilities.*

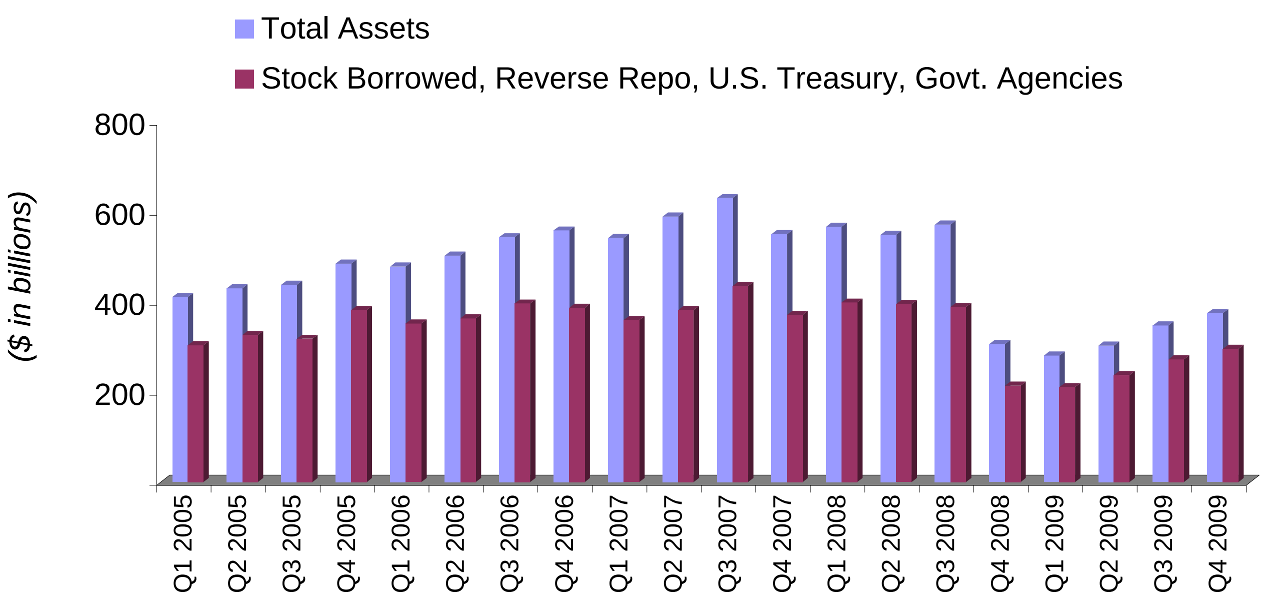
Source: Broker-Dealer FOCUS filings

Broker Dealer

Goldman Sachs & Co.

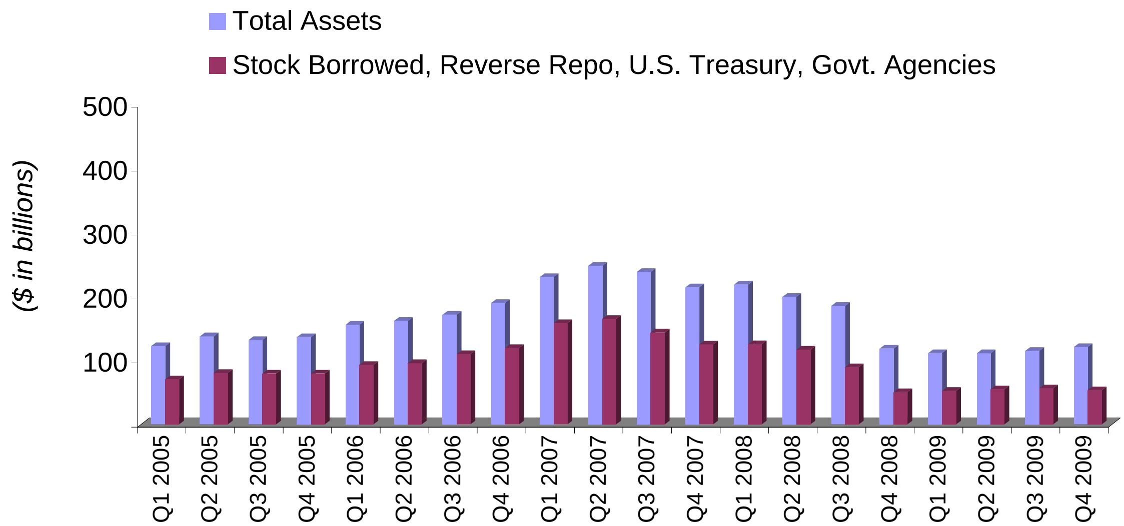


Morgan Stanley & Co.

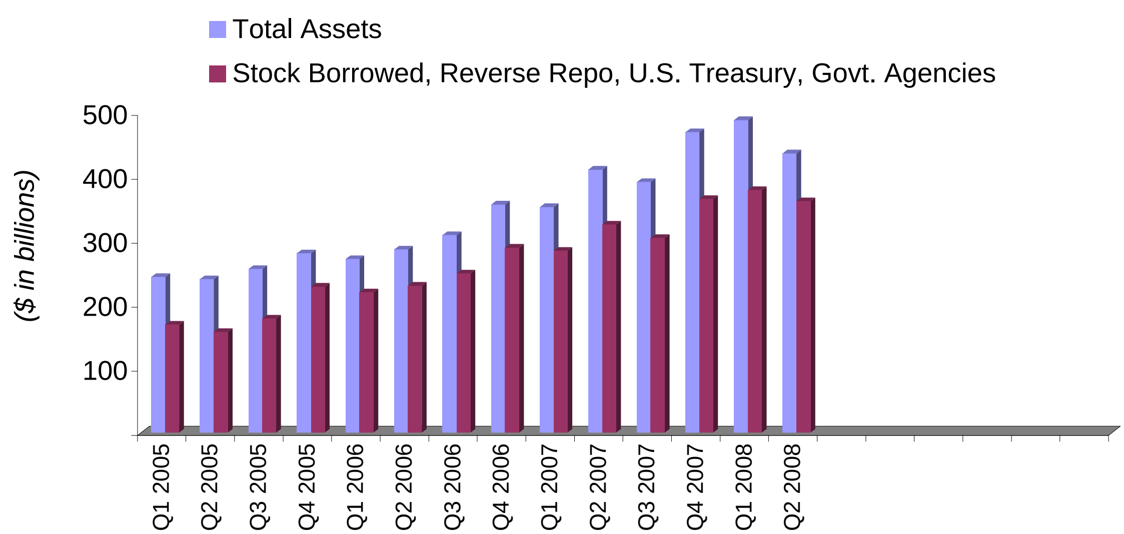


Broker Dealer

Merrill Lynch, Pierce, Fenner & Smith Inc.



Lehman Brothers Inc.



Bear Stearns & Co. Inc.