

From: [Patrick M Parkinson](#)
To: [Theodore Lubke](#)
Subject: Draft Email to Shafran re Contingency Planning re OTC Derivatives
Date: 09/05/2008 01:50 PM
Attachments: [Info Request for OTC Derivatives_Sep 4 2008.doc](#)

Theo,

Please review and comment asap on the message below.

Thanks.

Pat

Steve,

We have discussed this matter with President Geithner and are planning to move forward promptly on several fronts.

1. We are going to make the attached request to Lehman Brothers for information regarding their OTC derivatives positions. Tim will call Dick Fuld soon to inform him of the request prior to its delivery.



Info Request for OTC Derivatives_Sep 4 2008.doc

2. With respect to other OTC derivatives dealers, there is an existing Federal reserve project that has been at six BHCs' MIS with respect to counterparty credit risk management, with a focus on OTC derivatives. To date this project has focused on metrics that are relevant to the banks as going concerns rather metrics that would be relevant to assessing the potential risks from their failure or options for mitigating those risks. Further, it has not covered the IBs. Nonetheless, we believe that it would be better to expand this existing project rather than initiate a separate but related project. Expanding the project may take some time, but we need some time to sharpen our information requests related to a failure scenario.

3. Tim will ask Corrigan to accelerate formation of the private-sector default management group (DMG) that was proposed by CRMPG III. Specifically, we will ask the group to advise us on: (1) the information that we would need to obtain from a troubled dealer to assess the potential impact of closeout of a dealer's OTC derivatives books on its counterparties and on financial markets; and (2) the information that a potential acquirer of a troubled dealer's OTC derivatives book (and possibly also related hedges) to assess the potential risks and returns from such an acquisition. The group's advice (and what we learn in the course of inquiries at Lehman) would inform the next steps in the MIS project and ultimately what our expectations will be with respect to dealer MIS.

4. Last (but not least), Theo Lubke and I have been asked to work with you to create the "playbook" for an IB failure that the Secretary has been asking for. We see it having at least three segments, corresponding to what we see as the areas of greatest concern: (1) its tri-party repos and other secured financing, (2) its OTC

derivatives book, and (3) its obligations to various clearing entities (FICC, NSCC, DTC, CME, OCC, etc.) and the risks to those entities in the event that it does not meet those obligations. Tim would like us to complete a draft of the playbook by Sep. 15 when LB, MS, and GS will be reporting their earnings.

Please let me know asap if they seems reasonable to you (other than the Sep. 15 deadline for project #4!). Also, I assume that we will want to involve SEC in preparation of the playbook Please let me know if Treasury wants to take the lead in drawing the SEC in or whether you want us to do that.

Pat

▼ Steven.Shafran@do.treas.gov

Steven.Shafran@do.treas.gov

08/28/2008 04:54 PM

To Patrick.M.Parkinson@frb.gov

cc

Subject RE: treasury draft

Thanks for the quick response.

I had a brief chat w Paulson yesterday, and the view here (consistent w yours) is that it is impt for us to continue to push ahead to collect the information we need in the short term for contingency planning purposes. Can confirm that his preference is to do this in a way that minimizes disruption or concerns. Indicating that we are working in spirit of Corrigan recommendations and with more than one institution seems a good idea.

Im here tomorrow. Have a good weekend and lets talk Tuesday when you back. Looking forward to de-brief on the fed staff/ny staff OTC analysis.

Steve

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

From: Patrick.M.Parkinson@frb.gov [mailto:Patrick.M.Parkinson@frb.gov]

Sent: Thursday, August 28, 2008 4:34 PM

To: Shafran, Steven

Subject: Re: treasury draft

Steve,

Thanks. No, I will not be in the office tomorrow. I have circulated this to a small group of Fed (NY and DC) staff and will discuss with them next week.

Fed staff had a long discussion of the OTC derivatives issues today. New York staff will seek some guidance from Geithner tomorrow. I related your view that if we are going to approach individual firms we should do so at the top. Whatever we do with individual firms, we are inclined to encourage Corrigan to move ahead promptly with his initiative. But we don't see that as a substitute for gathering some info from individual firms in the very near term.

Pat

Steven.Shafran@do
.treas.gov

To 08/28/2008 04:11 Patrick.M.Parkinson@frb.gov

cc PM

Subject treasury draft

Pat: attached is a draft of the working product over here. Looking forward to comparing notes between this effort and yours. I think the teams were working together and hope we haven't drifted too far apart. Will you be in on Friday?

steve

<<systemicallycriticallegis draft ls.7.29.doc>> (See attached file: systemicallycriticallegis draft ls.7.29.doc)