MEMORANDUM FOR THE RECORD

Event: Interview with Steve Meyer, former co-head of the Global Equity Division, Bear Stearns

Type of Event: Phone interview

Date of Event: Thursday, April 22, 2010; 12:00pm

Team Leader: Tom Krebs

Location: 1717 Pennsylvania Avenue NW, Suite 800, Washington, DC; small conference room

Participants - Non-Commission:

- Steve Meyer, co-head of the Global Equity Division, Bear Stearns
- Michael Levy, partner, Bingham McCutchen
- Randy Levine, associate, Bingham McCutchen
- Eric Goldstein, Paul Weiss
- Jessica Carey, Paul Weiss
- Rebecca Kinburn, Paul Weiss

Participants - Commission:

- Tom Krebs
- Mina Simhai
- Donna Norman
- Karen Dubas

MFR Prepared by: Karen Dubas

Date of MFR: April 27, 2010

Summary of the Interview or Submission:

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such.

SIMHAI: [Standard FCIC introduction]

You were co-head of the Global Equities Division from 2006-2008, right? What was your background before that?

MEYER: I joined Bear Stearns in 1993 to build equity derivatives in the U.S. Between 1993 and 2006, I was the head of equity derivatives trading and structured equity products (derivatives, bond trading, and proprietary trading).

SIMHAI: When you were co-head of Global Equities Division, to whom did you report?

MEYER: At that point in time, my partner, Bruce Lisman, and I reported to the Executive Committee.

SIMHAI: Were you at the same level as Tom Marano?

MEYER: Something like that. I don't know exactly what his reporting lines were like. But he ran a business and so did I.

SIMHAI: Did you have a lot of interactions with Marano?

MEYER: Not during most of my career at Bear Stearns. The Equities and Fixed Income businesses were pretty separate. At the end of 2006, the decision was made to bring different parts of Equities into one division, and Bruce and I ran it. In late 2007, after Warren Spector left, Marano and I were put onto the Management and Compensation Committee.

KREBS: What were your duties on the Management and Compensation Committee?

MEYER: My duties were be a part of the weekly Management & Compensation Committee meeting that discussed various aspects of the firm. At the end of the year we reviewed each division and department and discussed compensation issues. During the rest of the year, we discussed a variety of management issues. We didn't have any compensation authority, but members of the Executive Committee sat on the M&C Committee.

KREBS: Would you make recommendation for compensation for an individual?

MEYER: The Management & Compensation Committee would review departments based on the procedures at that point in time. I was really only involved in that once because I didn't join until late 2007. We would talk about the individual compensation for some of the senior people in a department, and then we would talk about the department as a whole.

KREBS: How was the compensation ultimately decided upon for the members in a department?

MEYER: I don't know that answer for certain. We would review the compensation and we would sometimes discuss individual people, and ultimately those most senior people, the decision would be made at a higher level. It might be the Executive Committee or the Compensation Committee or Jimmy Cayne.

KREBS: Would the department head make a recommendation for the compensation within his department?

MEYER: The department head did not have full discretion. He would make person-by-person proposals for his department to the Management & Compensation Committee, but it would be approved above his level.

KREBS: So the recommendation was subject to ratification?

MEYER: Yes. The department head would make recommendations subject to ratification or amendment. If we had issues, we would make comments. I don't know who finally approved the compensation.

KREBS: What were the factors that you considered for department compensation?

MEYER: We would look at the performance of the department overall and the revenues and expenses of that business compared to previous years. We would look at various ratios—compensation-to-net-revenue, compensation-to-net-income-after-expenses—those types of factors.

KREBS: Were you on the Management and Compensation Committee in 2006?

MEYER: No, it was not until after Spector left. I think I joined in late fall 2007. I was brand new during the compensation process in 2007. I was kind of a cadet member of the committee.

KREBS: Did you have meetings with Marano?

MEYER: Yes, he was on the Management and Compensation Committee. I was on the Risk Policy Committee that Tom attended a couple of times. I don't know if he was a member.

The Risk Policy Committee was set up by Alan Schwartz. We met once a week for a few hours to review and discuss a few portfolios that the firm had.

KREBS: Were you looking at holdings and securities?

MEYER: Yes, and derivatives.

KREBS: What was the function of the committee in connection with the portfolio?

MEYER: We would review and discuss it. We would recommend to Alan Schwartz what be done.

KREBS: Did you make recommendations with respect to the portfolio holdings of Fixed Income?

MEYER: Yes, they were absolutely a focus of the Risk Policy Committee.

KREBS: With respect to the portfolio of mortgage-backed securities, did you make a recommendation that he should be cutting back on the portfolio?

MEYER: We had a debate at the committee where there was a lot of discussion about the portfolios, their size, and the hedging strategies that they had been pursuing. I certainly said that

I thought they should be shrunk. I felt that they were large. The business had previously had acquired loans and securitized them, so there was a lot of turnover on the portfolio. When the securitization market slowed down, I thought it was not prudent to hold as large a portfolio as we now had.

SIMHAI: So origination kept pace even though securitization slowed down?

MEYER: I don't know. It just seemed large given that not much securitization was going on.

SIMHAI: What were the hedging strategies that were used?

MEYER: There were a variety of strategies, including short positions in the mortgage and equity markets and potentially some credit positions.

KREBS: What are short positions in the mortgage market?

MEYER: Short positions in pass-throughs and other derivatives linked to mortgages.

KREBS: What types of short positions? Were there CDS?

MEYER: My memory is not perfect; I believe they did have some CDS. They may also have had physical short positions in mortgage pass-throughs.

SIMHAI: Did the Risk Policy Committee come to a consensus or a recommendation about shrinking or maintaining the size of the mortgage portfolio and hedging strategies?

MEYER: There was a healthy debate. As an equity market expert, I doubted some of the strategies of shorting the equities market as a hedge for the mortgage portfolio because of the spreads between those markets. That said, some of the hedges worked out. But over time, I thought it wasn't a good decision to hedge with assets that weren't strongly correlated.

There were discussions about housing price appreciation and how that would affect the portfolio going forward. Overall, I looked at it simplistically and saw that it was a large portfolio. I thought that shrinking it should have been done in connection with raising equity.

We had a lot of debate but I don't know that Risk Policy Committee came to any decision. This was probably January and February of 2008.

SIMHAI: Was there a discussion of home price appreciation (HPA)?

MEYER: No, it was negative numbers. Depreciation. People used the term negative HPA.

KREBS: Were these debates face-to-face with Marano?

MEYER: Marano and some of his senior traders were in the room and were part of the discussion. I didn't think that Tom was necessarily against shrinking the portfolio. He was constrained by liquidity and the markets. He was willing to do what he was directed, but he thought that shrinking the portfolio would result in losses.

KREBS: Was Ace Greenberg a member of the Risk Policy Committee?

MEYER: I don’t think so.

KREBS: In hindsight, should you have pounded the tables more about shrinking the portfolio?

MEYER: I think I made my positions clear, and I was fairly vocal in expressing my opinions to Alan Schwartz.

KREBS: When you expressed your view, what did Schwartz say?

MEYER: He talked about the difficulty of shrinking the portfolio and the liquidity in the market. He did acknowledge that if we shrunk the portfolio by a large amount, it would result in losses. He was looking at ways to simultaneously raise equity. He listened to all sides of the debate. I think he would have liked to shrink the portfolio, but he was constrained by the liquidity in the markets.

SIMHAI: Did the Risk Policy Committee report directly to the Executive Committee?

MEYER: The Risk Policy Committee was run by Alan Schwartz, so by definition it was at the top of the firm.

KREBS: Were you interviewed in connection with, or did you discuss or see, a report done with respect to risk management at the firm after Spector’s departure?

MEYER: Are you talking about the Oliver Wyman study?

KREBS: Yes.

MEYER: I was interviewed for that.

KREBS: Did you point out any issues to them that needed to be addressed?

MEYER: I can’t remember the date of that study. I think it was fall 2007. At that point my focus was mostly on the equity businesses. Some of the discussions were about equities and the way that we looked at risk. If I recall correctly, ultimately a lot of the recommendations were formalizations of processes that were already in place. These processes needed to be formalized and brought together more, but I don’t remember drastic changes.

KREBS: Were you involved in meetings about the findings of that study?

MEYER: I believe they came back and discussed their findings. I don't recall exactly who was involved in those meetings, but it seemed to be straightforward formalizations of the existing policies of the risk management unit.

KREBS: What caused the fall of Bear Stearns?

MEYER: It was a crisis of confidence and an unwillingness of lenders to roll over repo lines.

KREBS: Were you involved with repo lenders to Bear Stearns?

MEYER: I didn't work with lenders of repo. I didn't have any interaction with them on an ongoing basis.

SIMHAI: Can you talk about the weekend of March 15-16, when the sale of Bear Stearns to JPMorgan was agreed to?

MEYER: The week before—the previous Sunday—I was in California skiing with my family for spring break. I flew back Friday night to meet with JPMorgan on Saturday and Sunday to be in the due diligence meetings.

I was in the meetings that were specifically on the equities business. I believe there were many different teams of JPMorgan folks that were meeting with their Bear Stearns counterparts.

I met with Carlos Henandez and his team from JPMorgan who asked for presentations on all parts of the equities business. We showed the types of businesses and anything they would want to know about the business.

SIMHAI: Was the New York Fed there?

MEYER: I don't remember them being there.

KREBS: Did you have any meetings with SEC?

MEYER: No. Not in the month or two prior to that week or during that time period.

KREBS: Were you involved with meetings with SEC related to the CSE program?

MEYER: I worked with Mike Alix during the CSE process to talk to SEC about consolidated supervision, but I can't remember much more.

SIMHAI: How did you feel about the Bear Stearns price per share of $2?

MEYER: I was highly disappointed.

KREBS: Are you aware of the *Street Fighters* book quote that is attributed to you about the $2 share price.

MEYER: I'm aware that book includes that information.

KREBS: Did they quote you correctly?

MEYER: I never spoke to the author of that book, so if it was quoted, it was quoted secondhand. I was in meetings with Alan after the $2, and I expressed my disappointment. I expressed that we could have potentially reduced risk and sold positions earlier. Ultimately, in hindsight, I don't believe that would have saved Bear Stearns, but at the time I thought that we could have sold positions earlier and raised more capital.

SIMHAI: Can you give color on how the price went up from $2 to $10?

MEYER: I wasn't involved in those conversations.

SIMHAI: Were you involved in selecting assets for Maiden Lane?

MEYER: No. I don't know who was involved in that.

SIMHAI: You had some experience with derivatives as well. Can you talk about the issuance or creation of synthetic CDOs?

MEYER: Not really. I wasn't involved in that. My primary role was as the head of trading for the equity derivatives.

KREBS: What types of instruments were you involved in?

MEYER: I was involved in equity options, swaps, individual equities, and baskets of equities.

KREBS: What about CDS?

MEYER: No, they're really on the credit side, not the equities side. We were restricted to products where the underlying was stocks and stock indices.

KREBS: Who were your swaps counterparties?

MEYER: Institutional investors, other Street counterparties, and hedge funds.

KREBS: Which hedge funds?

MEYER: It varied. We didn't have any one large client, and our swaps business was relatively small. If I give you names it won't be representative. I know we worked with DE Shaw, but I can't remember other names.

SIMHAI: Did you experience counterparties' calls on equities derivatives as Bear Stearns' situation got more difficult?

MEYER: Most equities derivatives were done with mark-to-market counterparties. Every day, positions were marked to market and collateral went back and forth with Bear Stearns and its counterparties.

SIMHAI: Was there a spike in the collateral that was needed either around the time of BSAM or on March 10, 2008?

MEYER: I wasn't involved directly in that process. Even though collateral went back and forth, the equity derivatives pieces were pretty straightforward in valuing.

NORMAN: Can you tell me what you know about Bear Stearns' CDS exposure?

MEYER: I wasn't involved in the CDS business in the last few years. We discussed certain portfolio parts at the Risk Policy Committee, but I don't know specific exposures.

NORMAN: Who would be the person at Bear Stearns most knowledgeable about CDS from 2005-2007?

MEYER: Jeff Mayer, Craig Overlander, and their boss at the time, Warren Spector.

NORMAN: Would there be memos on this from the Risk Policy Committee?

MEYER: There were discussions of some portfolios. I remember conversations about one portfolio run, but I don't recall there being conversations or reviews of the dealer portfolio.

NORMAN: Were you involved in the SEC's review of Bear Stearns prior to it entering the CSE program?

MEYER: Peripherally. I may have been on a phone call with the SEC to talk about the application of equities to the CSE program.

NORMAN: In the application, it talked about a firm-wide value-at-risk limit, and Bear Stearns said that it didn't have one but would implement one. Was that something that the Risk Policy Committee would have talked about?

MEYER: I don't have any knowledge of that.

NORMAN: Do you know if the SEC's CSE program asked Bear Stearns to enhance its contingency funding program?

MEYER: No.

NORMAN: Did you ever feel like Bear Stearns' risk limits were too high?

MEYER: I wouldn't say that I necessarily thought that risk limits were too high. There were portfolios that we reviewed that I thought would be better off if risks were reduced.

On the mortgage portfolio, we debated the size of the book and what should be done with it. I thought the size should be reduced, and even if it could only be done by selling securities at a loss, it should be done.

SIMHAI: Were there any types of securities in the mortgage portfolio that you were particularly concerned about?

MEYER: It was large overall, and it had both higher-grade and lower-grade products. I was mostly concerned with the overall size, but it was very difficult with the constraints on liquidity and on securitization.

SIMHAI: Thanks for your time. I think that wraps up the questions on our end.

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