Amy White/NY/FRS

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To

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Subject

On-site Primary Dealer Update: September 23

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Primary Dealer Updates

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Goldman

Liquidity Pool: $75 billion COB Monday, a decline of almost $3 billion from Friday.
Prime Brokerage: Net outflow of $1-2 billion yesterday.

Morgan

Liquidity Pool: $32 billion COB Monday, down almost $10 billion from Friday.
Prime Brokerage (Monday)
- New York: $8.5 billion in outflow requests.
- International Prime Brokerage: $2 billion of free credit withdrawals today.

Rating Agencies: **Fitch** will reaffirm Morgan ratings.
Collateral Posted: At COB yesterday (9/22), Morgan had $28.1 billion posted.

Merrill

Liquidity Pool: Estimated to be $34 billion COB today, up $3 billion from Monday.
Fails: Down $3.5 billion to $17.5 billion on Monday.
Term Lending Facility: Update: Still working on the details; expect to have the $10 - $12 billion facility with BofA in place by tomorrow.
Secured
- London: $2.3 billion in repos did not roll.
- New York: $1 billion in whole loans, $1.5 billion in HY, and $1.3 billion in AMPs did not roll.
- Counterparty**:** **Dexia Bank** rolled its $2.5 billion equity repo.

Comments Submitted by CPC Teams
(*Thanks to Craig Leiby for compiling the following)*

JPMC

Picked up $10 - $15 billion yesterday**,** attributing a large part of it to transitioning ex-**Morgan** and **Goldman** PB clients. JPMC has seen a 30% increase in PB balances, roughly $30 - $40 billion in flows since the Lehman crisis, including ~$5 billion out of an estimated $30 billion that could leave **Morgan**.
Collateral call volumes remained elevated on Monday; $2.5 billion in calls on OTC derivatives and $2.1 billion in fails, largely due to **Goldman** and **Morgan** having trouble meeting outgoing wires.
Risk management continues to have concerns with **Morgan** given CEO feedback from weekend discussions with senior Fed officials, ongoing PB outflows, the uncertainty with the finalization of the Mitsubishi UFJ investment, and the questionable near term benefits arising from **Morgan**'s change to BHC status. JPMC estimates that its potential loss from a Morgan default to be $5 billion (excluding collateral).
JPMC has gone into defensive mode with respect to its **Morgan** exposure, given that **Morgan** has yet to sign collateral security interest agreements ($2.7 billion noted last week). Risk instructed that new PB clients from **Morgan** not be allowed to put on new trades with **Morgan**.

Citi

Citi is currently carrying out China's State Administration for Foreign Exchange 's recall of $800 million in **Goldman** securities. $600 million got recalled by mid-day yesterday. A buy-in process will commence at the end of today for any remaining fails.

PB staff were instructed to be prudent with respect to onboarding Lehman and **Morgan** PB clients. Clients that are not provided the funding they desire from Citi are moving elsewhere.

Deutsche

CRM continues to have concerns with **Morgan**'s liquidity. Recent payment delays cited include **Morgan**'s overdue cash remittances to PB's and yesterday's overdraft with Deutsche for regular operational payments.
Notwithstanding payment delays, Deutsche's CRM acknowledged a decrease in novations from **Morgan** yesterday as compared to last week.

Barclays

A $150 million dispute with **Goldman** is expected to be worked out over the next few days.

Management noted yesterday that last week's flurry of novations away from stand-alone broker dealers has somewhat abated.

<u>BNPP</u>

Significant collateral disputes are in place with **Goldman** ($128.5 million) and **Morgan** ($57.4 million).
BNPP's Treasurer rejected a $1 billion CD/CP buyback request from **Goldman** Sachs Asset Management, after concluding that BNPP is at the point where they need to stop the flow of redemptions.

<u>Credit Suisse</u>

This morning, Risk Management received notification from **Morgan**'s PB unit that all cash wires will be made for transitioning ex-**Morgan** PB clients.
Management reports ongoing unresolved fails with Morgan and an outstanding dispute for $80 million. The $150 million dispute reported recently has been rectified.
Risk Management turned down between 5 and 10 wrong way novation requests that increase already concentrated **Morgan** exposures. Credit Suisse has concentrated **Morgan** exposures in ABS, CDS, corporates, and emerging markets.

<u>CIBC:</u> **Goldman** and **Morgan** were placed on "referral" basis. (Lehman, **Merrill** and AIG were placed last January.)

<u>SG</u>: **Goldman** and **Morgan** exposures continue to be closely monitored.

<u>RBS Greenwich Capital:</u> **Morgan**, **Goldman**, and **Merrill** remain on Risk's Watchlist. While RBSGC is comfortable doing direct trading, they are being selective on customer assignments on these names, particularly out-of- the-money trades.

<u>WFC:</u> Management acknowledged that **Goldman**, **Merrill** and **Morgan** have become heavily reliant on the overnight market. Under normal conditions, the broker-dealers have 20% overnight and 80% term funding. In recent days, that split has become 95% overnight and 5% term.

<u>Bank of America</u>: The bank introduced a cancelable repo program, currently at $10 billion, which allows money funds facing redemptions to obtain funding from **Goldman**, **Morgan**, Fidelity, and State Street earlier in the day. The program funds only agency mortgage-backed securities at this point.

<u>CCR Top Counterparty Analysis</u>: An analysis of LGD credit exposures at ten large FRB-supervised institutions identified **Merrill** ($4.1 billion) and **Morgan** ($3.5 billion) as two of the largest concentrations of counterparty credit risk. After factoring credit default swap spreads, **Merrill, Morgan**, and **Goldman**, along with Citi, appear at the top of the list.