

[REDACTED]

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From: mugoletti [REDACTED]  
Sent: Tuesday, April 29, 2008 5:04 PM  
To: Ugoletti, Mario  
Cc: Norton, Jeremiah  
Subject: Re: IBanks

[Jeremiah, here is a start from memory, I left my meager notes in the office, I will fill in the blanks and check the spelling of names in the morning. Anything else that you want to add let me know, Mario.]

#### Issue

The Federal Reserve has temporarily expanded liquidity options available to investment banks and primary dealers through two key programs.

(1) Primary Dealer Credit Facility -

(2) Term Securities Lending Facility (TSLF) -

Key issues associated with these changes include: have these liquidity facilities been effective; can these facilities be viewed as temporary, or have these actions created the perception of government support; should these facilities be made permanent; if so what type of regulation should accompany permanent access to Federal Reserve liquidity.

Below is a summary of the views of Goldman Sachs, Lehman Brothers, and SIFMA. We plan on going back to New York to discuss this further with Morgan Stanley and Merrill Lynch.

#### Goldman Sachs

- \* Met with David Vinnier, Liz Belchtel, Greg Palm, and others.
- \* Did one trial run of \$xxx million with the PDCF to see how it works, have made more extensive use of the TSLF.
- \* PDCF not much value as a funding source for Goldman, but it has helped to stabilize the market.
- \* TSLF has been useful as term secured funding has never been widely available. Now other firms are providing term secured funding, and the expectation is that this will continue even if the TSLF closes.
- \* Key concerns with regulation surrounding any "permanent" type liquidity access are higher leverage capital requirements, activity restrictions, and micro-management of the firm.
- \* Felt that if it was required, a higher leverage capital requirement could be managed, but it would involve moving more activities off-balance sheet.
- \*

Activity restrictions could be problematic, especially as it relates to commodities and merchant banking.

\*

So far the relationship with the on-site Federal Reserve examiners has been good as they have mostly been in an information gathering mode. Unclear that this time period is a good proxy for how future regulatory oversight might play out.

\*

Tried to make the distinction that any change in regulation associated with a liquidity backstop should acknowledge the differences between institutions that make significant use of insured deposits and others. In particular, for Goldman, short-term secured funding is a small portion of overall liabilities.

Lehman Brothers

\* Met with Tom Russo.

\* Supports a framework that would provide discount window access to individual institutions and on a market-wide basis. Such a framework should be implemented in a collaborative manner to avoid the stigma associated with discount window borrowing. This would include anonymity and working together to solve problems.

\* In such a framework additional safety and soundness regulation would be necessary. The distinction is that regulation should be focused on the Federal Reserve as a potential lender, as opposed to protecting insured depositors. Maybe 50 percent of the current regulations that apply to commercial banks would be appropriate for a lender-based regulatory framework.

\* Need to consolidate regulation at the holding company level, in particular the holding company oversight of the OTS is duplicative and not particularly useful. The Federal Reserve is the logical choice as the consolidated supervisor.

\* At this time they are actively considering all options in terms of corporate organization.

SIFMA

\* Has circulated a list key questions to members: who should have access; what should the terms of access be; what type of regulation is necessary.

\* Goal is to try to develop an industry position. That appears next to impossible.

\* No firms came forth with any position. In particular, primary dealers of bank holding companies (e.g., Bank of America; Citigroup; and JP Morgan/Chase) said they were still considering the issue. As primary dealers with insured banks that already have access to the discount window, their views will likely be much different than more stand alone investment banks.

\* Was some discussion of limiting access to investment banks with consolidated supervision. That would seem like a hard case to make, as it only exacerbates too-big or too-interconnected to fail.

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

From: Mario.Ugoletti@do.treas.gov

To: mugoletti@msn.com

Sent: Tuesday, April 29, 2008 12:02 PM

Subject: IBanks

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