



EMBARGOED UNTIL WEDNESDAY, NOVEMBER 5, 2014 AT 9:00 A.M. IN U.S. EASTERN TIME
AND IN LIMA, PERU; OR UPON DELIVERY

Short-Term Wholesale Funding Risks

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Global Banking Standards and Regulatory and Supervisory
Priorities in the Americas
Lima, Peru

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Figure 1: Selected Balance-Sheet Items of Security Brokers and Dealers

2000:Q1 - 2014:Q2

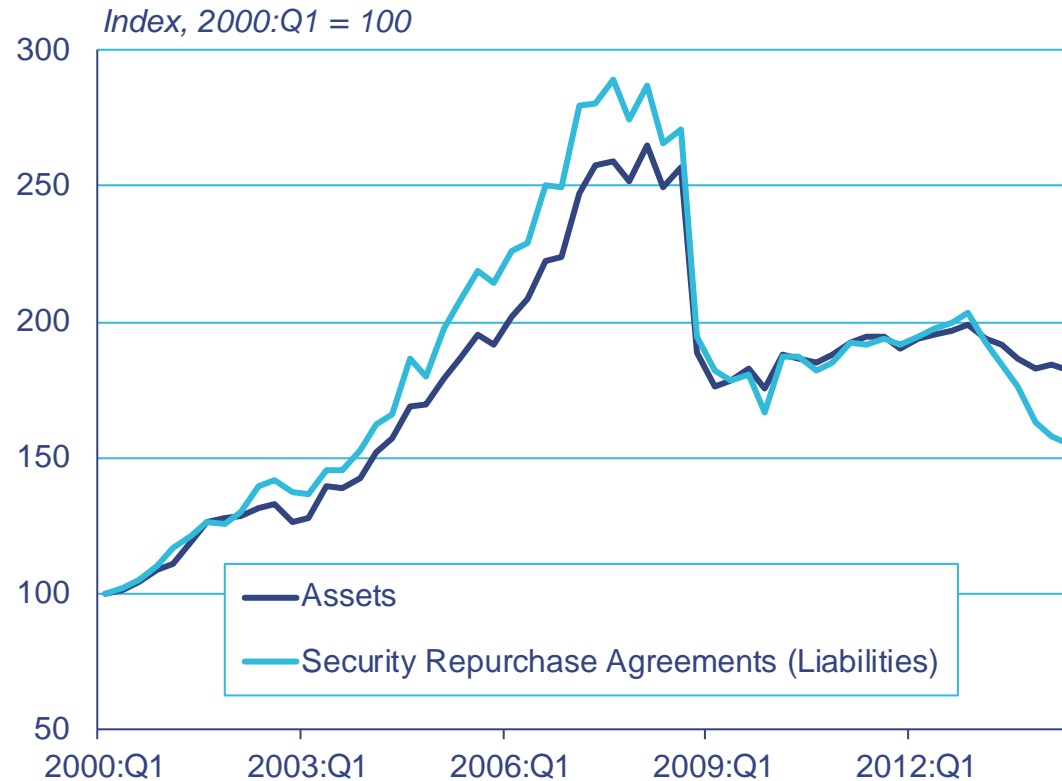




Figure 2: Lehman Brothers Funding Runoff
May 30, 2008 - August 29, 2008

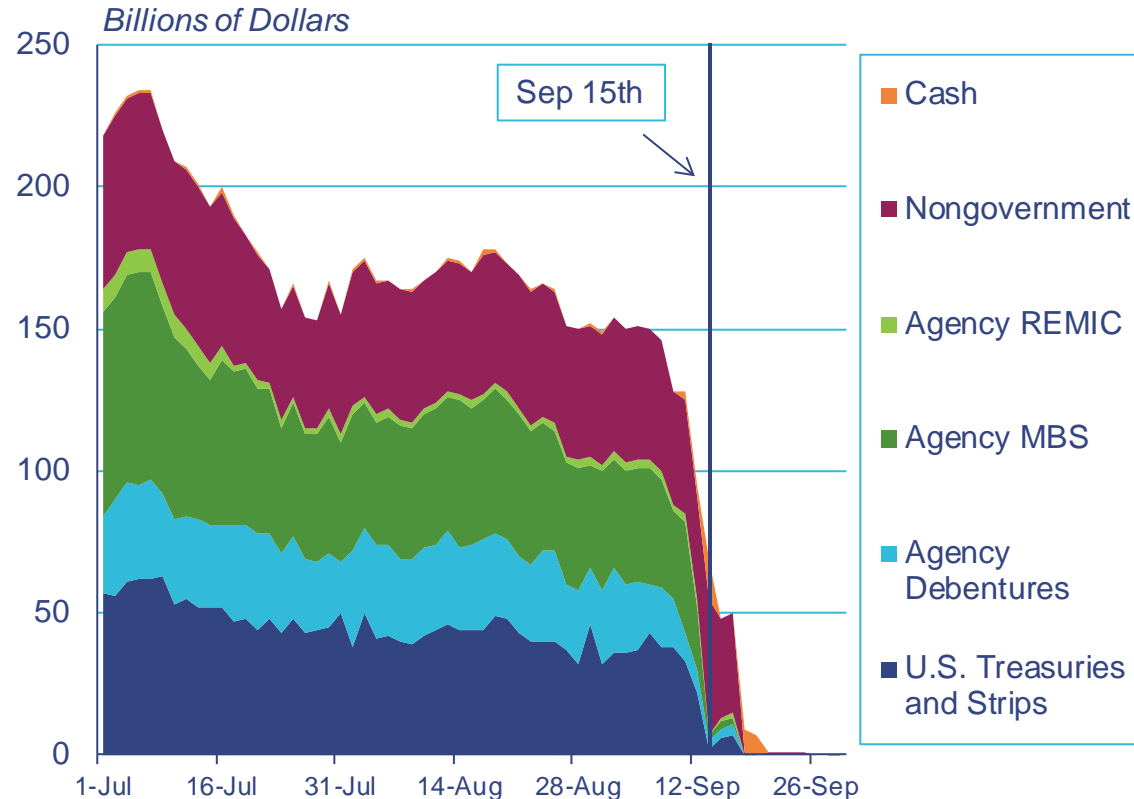
Funding Source	May 30 - Aug 29, 2008 (Billions of Dollars)	as a Percent of 2008:Q2 Total Assets
Repo	11.8	1.8%
Prime Brokerage	9.2	1.4%
Counterparty/Derivatives Collateral Calls	12.3	1.9%
Commercial Paper	4.2	0.7%
Other Short-Term Debt	10.1	1.6%

Source: Lehman Brothers Holdings Inc. Chapter 11 Proceedings, Report of Anton R. Valukas, Examiner, and Exhibits, Jenner & Block LLP, Lehman Brothers Holdings Inc., 10-Q, May 31, 2008



Figure 3: Composition of Collateral Posted by Lehman Brothers in Tri-Party Repo

July 1, 2008 - September 30, 2008



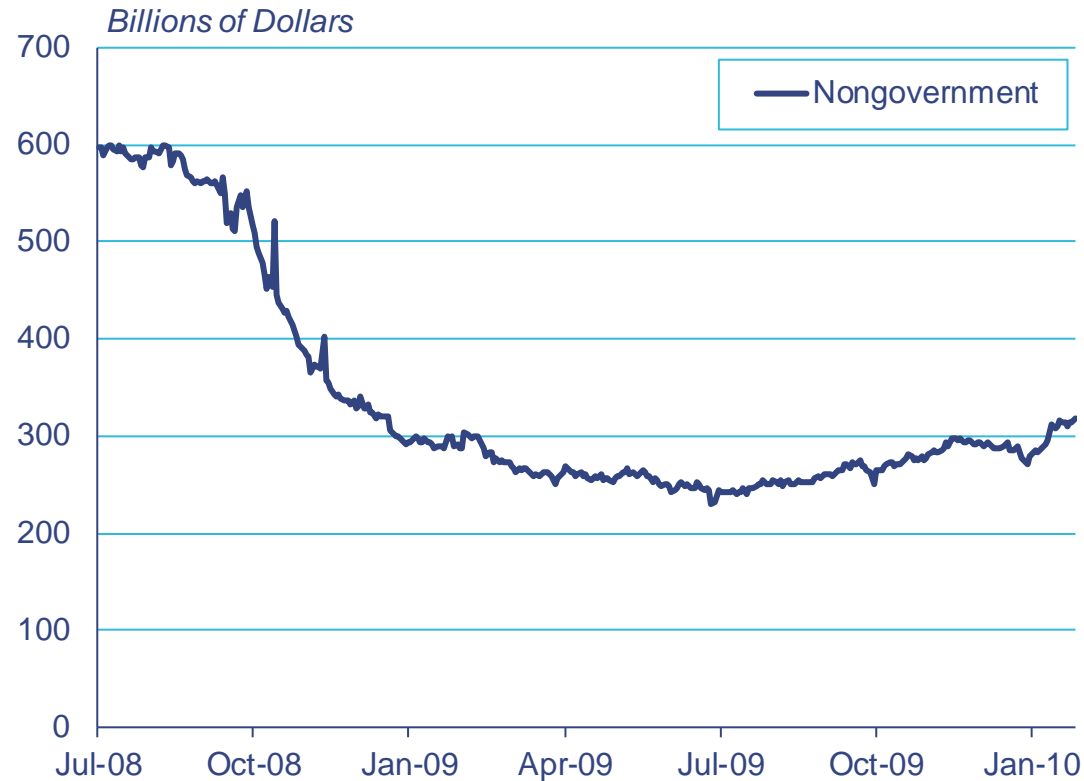
Note: Nongovernment securities are those not backed by the full faith and credit of the federal government.

Source: Federal Reserve Bank of New York Staff Report No. 506, "Repo Runs: Evidence from the Tri-Party Repo Market" by Adam Copeland, Antoine Martin and Michael Walker, July 2011, Revised August 2014



Figure 4: Tri-Party Repo Market: Collateral Not Guaranteed by the Federal Government

July 1, 2008 - January 29, 2010



Note: Nongovernment securities are those not backed by the full faith and credit of the federal government.

Source: Federal Reserve Bank of New York Staff Report No. 506, "Repo Runs: Evidence from the Tri-Party Repo Market" by Adam Copeland, Antoine Martin and Michael Walker, July 2011, Revised August 2014



Figure 5: Size of the Repo Market January 2014

U.S. Repo Market Estimates Billions of Dollars	
Total ^a	3,107
Tri-Party ^b	1,407
General Collateral Finance (GCF) ^b	306
Bilateral ^c	1,394

^aEstimates are based on Federal Reserve Reporting Form FR2004 (for primary dealers in U.S. government securities), data as of January 8, 2014.

^bFederal Reserve Bank of New York, data as of January 10, 2014.

^cBilateral Repo estimates are a residual amount, equal to Total Repo minus Tri-Party Repo minus GCF Repo.



Figure 6: Protecting the Bank

The U.S. regulatory framework limits bank funding of the activities of nonbank affiliates

Collateral Category ^{(1), (2)}	Treatment of Repurchase Agreements with 2008 Exemptive Relief ⁽⁵⁾	Treatment of Repurchase Agreements Post-DFA
U.S. Treasuries and Agencies	Exempt from the collateral requirements, 10% and 20% quantitative limits, and prohibitions on purchases of low-quality assets.	Exempt from Section 23A requirements if 100% collateralized. ^{(6), (7)}
Assets Eligible for Pledging at the Discount Window (other than U.S. Treasuries and Agencies) ⁽³⁾	Exempt from the collateral requirements, 10% and 20% quantitative limits, and prohibitions on purchases of low-quality assets.	Must be 100% collateralized. Also subject to the 10% and 20% quantitative limits.
Assets <u>Not</u> Eligible for Pledging at the Discount Window ⁽⁴⁾	Exempt from the collateral requirements, 10% and 20% quantitative limits, and prohibitions on purchases of low-quality assets.	Generally must be collateralized at 120% (over-collateralized). Also subject to the 10% and 20% quantitative limits.
Equities	Exempt from the collateral requirements, 10% and 20% quantitative limits, and prohibitions on purchases of low-quality assets.	Must be collateralized at 130% (over-collateralized). Also subject to the 10% and 20% quantitative limits.

Note 1: Copeland et al., "Repo Runs: Evidence from the Tri-Party Repo Market," Federal Reserve Bank of New York Staff Report, July 2011, Number 506, Revised August 2014 (providing categories of tri-party repurchase agreement collateral as of September 30, 2008).

Note 2: This analysis does not address the permissibility of a bank engaging in various types of repurchase agreements.

Note 3: Assets eligible for pledging at the discount window include asset-backed securities, corporate bonds, private label collateralized mortgage obligations, whole loans, and municipal bonds, all meeting certain ratings requirements.

Note 4: This category of assets consists of the classes of assets eligible for pledging at the discount window but that do not meet the discount window's credit quality standards.

Note 5: 12 C.F.R. § 223.42(n) (implementing the Board's 2008 exemptive relief). See also 73 Fed. Reg. 54307 (September 19, 2008).

Note 6: The Board's Regulation W, implementing FRA Sections 23A and 23B, has not been amended since DFA was enacted. For the purpose of this analysis, we have assumed that repurchase agreements would be treated as "credit transactions" as they are treated under current Regulation W. We have not addressed the prohibitions on purchases of low-quality assets or the exemptions for purchases of certain assets granted under 12 C.F.R. § 223.42(e) or (f). See also 12 C.F.R. § 223.42(c) (exempting "credit transactions" secured by U.S. government securities). The requirements of Section 23B still apply.

Note 7: 12 C.F.R. § 223.14(b)(1) (identifying "credit transaction" collateral requirements).



Figure 7: Example of SEC FOCUS Report Part III Filed Annually and Publicly Available

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION	
ASSETS	
Cash and cash equivalents	\$
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	
Financial instruments owned, at fair value (approximately \$ were pledged to various parties)	
Securities received as collateral, at fair value	
Securities purchased under agreements to resell (includes \$ at fair value)	
Securities borrowed	
Receivables:	
Customers	
Brokers, dealers and clearing organizations	
Interest and dividends	
Fees and other	
Affiliates	
Premises, equipment and software (net of accumulated depreciation and amortization of \$)	
Goodwill	
Other assets	
Total assets	<u>\$</u>
LIABILITIES AND MEMBER'S EQUITY	
Short-term borrowings:	
Affiliates	\$
Other (includes \$ at fair value)	
Financial instruments sold, not yet purchased, at fair value	
Obligation to return securities received as collateral, at fair value	
Securities sold under agreements to repurchase (includes \$ at fair value)	
Securities loaned	
Other secured financings (includes \$ at fair value)	
Payables:	
Customers	
Brokers, dealers and clearing organizations	
Interest and dividends	
Other liabilities and accrued expenses (includes \$ at fair value)	
Total liabilities	<u> </u>
Subordinated liabilities	<u> </u>
Member's equity:	
Morgan Stanley & Co. LLC member's equity	
Accumulated other comprehensive loss	
Total Morgan Stanley & Co. LLC member's equity	<u> </u>
Noncontrolling interest	
Total member's equity	<u> </u>
Total liabilities and member's equity	<u>\$</u>
See Notes to Consolidated Statement of Financial Condition	