Lessons From Bear Stearns Liquidity Event

- The Bear Stearns liquidity event highlighted the liquidity risk in the broker dealers, specifically secured funding risk and prime broker liquidity risk
  - Secured funding capacity disappeared for harder to fund assets such as mortgages or high yield securities, which we fund with cash capital (mortgages) or which we overfund (high yield securities)
  - As prime broker clients withdrew their free credit balances, the business started consuming cash and Bear Stearns was unable to find new secured funding capacity to replace the lost cash. This is the reason why we structured the business to be cash generative

- Although the mitigation of both of these risks was already included in our Funding Framework, the speed at which the crisis evolved ($17 billion liquidity loss at Bear Stearns in 48 hours) made us refine our liquidity stress scenario
  - Revised liquidity stress scenario is <u>significantly</u> more conservative than what we experienced during the week of March 17