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FCIC memo of staff interview with Denis Manelski, Bank of America

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MEMORANDUM FOR THE RECORD

Event: Interview with Denis Manelski, Bank of America

Type of Event: Telephonic interview

Date of Event: Thursday, July 15, 2010

Team Leader: Troy Burrus

Location: FCIC small conference room

Participants - Non-Commission:

- Michael Sharp, Wilmer Hale
- Michael Hazel, Wilmer Hale
- Rich Rauzi, BofA
- Jennifer Maloni, BofA Legal
- Denis Manelski, BofA

Participants - Commission:

- Troy Burrus
- Bruce McWilliams
- Jobe Danganan
- Landon Strobel
- Greg Feldberg
- Chris Seefer
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: July 13, 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 except where clearly indicated as such.

Burrus: I'd like to start with a bit of background on Mr. Manelski. When you started working, what your job titles were, your responsibilities.

Manelski: The way we describe ourselves, I'm a legacy Merrill Lynch employee. I started at Merrill in 2004. I was the Global Head of the Financing Business. My current function is I'm the Global Head of Markets, Financing, and Futures. This includes the repo desk, prime brokers and futures business in debt and equity. I started with Merrill in 2004. I've been with the combined companies for 6 years.

McWilliams: Could you describe, in general, your exposure to Lehman Brothers and the steps you took to protect against that exposure in 2007.

Manelski: Let's start this way. I don't know how much conversation you've had on this before me, but if you think about the financing markets and the way we relate to other primary dealers, we do that through a clearing entity called the FICC. What that means is the exposure we take to any other primary dealer happens through an interdealer broker. We do that on a no-names basis. I face Liberty as an interdealer broker. There's another side to that transaction that I'm not aware of. Liberty submits those exposures to FICC for exposure and risk. Generally, we have little exposure to any counterparty on Wall Street. Specific to Lehman, we essentially had none, other than our exposure through the FICC that we're not aware of. We don't know how many times we crossed them in trades. We felt comfortable that the interdealer clearing entity had done a good job managing their exposure. There was a substantial clearing fund that came into place in the mid-1990s. The clearing fund has never been tested because they've done such a good job in maintaining margins. We had no specific exposure of any material kind to Lehman that I know of.

McWilliams: Is that Merrill or BofA?

Manelski: It would work for both. It would have worked exactly the same.

McWilliams: What about any kinds of exposure with derivatives?

Manelski: I can't speak to the derivatives exposure. I can only speak to the financing exposure. We didn't have any CP exposure to Lehman. Legacy BofA, Legacy ML had no exposure to Lehman. Historically, we didn't have a position in that type of paper, nor did we face other dealers on the street in CP trading.

McWilliams: I thought you guys had some exposure to Lehman.

Manelski: Not in the Repo business.

Danganan: How about the entry day to cover over drafts?

Manelski: You have to sort that question out for me.

Danganan: Apparently there's a suit between Lehman and BofA for an unsecured entry day of credit...

Lawyer: Our understanding was that you needed to talk about Repo and CP.

Manelski: I can really only talk about the secured funding relationship between ourselves and Lehman. Anything that was a bank exposure, I don't know.

Burrus: We're going to put you on mute for a second... We're back.

Stroebel: We asked BofA to fill out a market risk survey. I believe it was directed to me in return. We understand we can talk to you about that.

Manelski: Yeah, I guess. Is it the broker-dealer survey?

Stroebel: Exactly. On that schedule A in the Repo market, we're just trying to resolve the differences here.

Manelski: I don't have the schedule, or the guy that put it together.

Seefer: For July of 08, it shows \$2.8 billion exposure to Lehman for BofA. These are monthly amounts ranging from \$3 billion to as low as \$0 when they fail. Lower amounts in different time frames.

Manelski: There's a possibility that at different times, the Legacy BofA desk dealt with Lehman. None of those folks are here. I spoke to a couple of control folks on how they handled Lehman into the crisis of 2008. My best guess is that they were operating a direct relationship for quite a while with them. They decided to only face them through the FICC net.

Burrus: So you think they changed their relationship in 2008?

Manelski: Yes. Based on what you're telling me, that would be logical.

Lawyer: Why don't we circle back. Dennis is Legacy ML, who now runs the combined desk. Let us find out where that number came from.

Manelski: Legacy ML never had a direct relationship with Lehman. That I know for sure. I didn't walk in the door here until January 2009. What they did in 2007-08, I don't know.

Seefer: Generally, when you were at Merrill, was there a change in how you guys were managing your exposures to Lehman throughout 2008.

Manelski: Here's what your question is. Would we have instructed a change in behavior in terms of not crossing us with Lehman? That is an instruction we could make. They will honor our request. At the time all that was going on, it was clear to senior management at Merrill that not providing liquidity to market participants could be bad. We were instructed to continue to provide orderly markets and not make a distinction between counterparties because the FICC could manage the exposure correctly.

Feldberg: There may have been a decision made at BofA about dealing with Lehman directly to the FICC. When you think about this, that shift shouldn't have caused any difficulty in Lehman's ability to fund. Those are direct relationships and all firms tend to have them with friends in the market place where it's easy to do business in the morning, but that's out of the sake of ease. That's available to everyone through interdealer brokers.

Stroebel: Is it fair to say you would not know your exposures to any specific counterparty in the FICC?

Manelski:.

Lawyer: Would you have asked them?

Manelski: They wouldn't have answered.

McWilliams Who instructed you not to disrupt the market?

Manelski: John Thain.

Feldberg: From the view of Merrill, did you think that other people were concerned about Merrill?

Manelski: I don't think so.

Burrus: Mike, if you could get back to me about who filled out the Schedule A.