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Letter from Reginald J Brown and Michael J Sharp to Thomas Krebs Re Merrill Lynch Board Update Regarding Bear Stearns

Reginald J. Brown

Michael J. Sharp

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Confidential Treatment Requested

WILMERHALE

March 30, 2010

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Thomas Krebs, Esq.
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue NW, Suite 800
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Re: Merrill Lynch Board Update Regarding Bear Stearns

Tom:

We represent Bank of America Corporation ("BAC") in the above-captioned inquiry. You asked us to identify and produce a report prepared for Merrill Lynch's Board of Directors entitled "Bear Stearns Asset Management: What Went Wrong." We have contacted the appropriate personnel at BAC/Merrill Lynch, and we believe what you may be referring to is an update provided to the Merrill Board's Finance Committee in July 2007. We are attaching three slides stamped BAC-FCIC-0000054648 through BAC-FCIC-0000054650 from that update concerning Bear Stearns. We respectfully request that this information be maintained confidentially by the FCIC and its staff.

Please call if you have any questions.

Sincerely,

/s/ Reginald J. Brown

Reginald J. Brown

Michael J. Sharp

Bear Stearns Asset Mgm't: Timeline & ML Exposure

Timeline of Recent Events

June 8	Enhanced Fund suspends redemptions, ML credit speaks with Ralph Cioffi. Fund continues to meet margin calls	June 18	ML withdraws bid list from the open market and participates in two separate Creditors meeting. ML speaks to Blackstone post the call to articulate terms that may make the deal "stick".
June 12	BSAM puts out a \$4BN bid list of securities representing both Enhanced and High Grade positions	June 19	Blackstone holds creditors call on revised plan. ML makes counter proposals to BSAM/Blackstone. ML determines plan is unacceptable & issues default notice on High Grade.
June 14	In creditors meeting, BSAM communicates funds lack cash to meet street margin calls. Requests 60 day reprieve. ML determines plan is unacceptable. ML meets with BSAM to explain rationale for sending default notices	June 20	ML/BSAM discuss voluntary unwinds. Unable to reach agreement
June 15	Several firms serve default notices to BSAM. Margin calls not met. ML issues default notice to Enhanced Fund & prepares bid list of collateral. ML calls BSAM to explain delivery of default notice. Bid list submitted to the open market	June 22	BSAM announces recap plan for High Grade – no bailout for Enhanced Leverage. ML/BSAM discuss voluntary unwinds. Unable to reach agreement.
June 17	ML holds call with BSAM on work out proposals. BSAM informs ML they hired Blackstone to work on restructuring plan	June 29	ML sends a "Demand for Payment Notice" to both BSAM funds demanding payment for all amounts owed.

Positions with Merrill Lynch (\$MMs)

Fund	Product	Due to (from) ML	Collateral	Claim to BSAM	Unwind & Financing Costs	True Net Exposure
Enhanced Leverage	Derivatives	40	12	28	20	8
	Repo	541	543	(3)	<1	(3)
High Grade Structured Credit	Derivatives	39	13	26	15	11
	Repo	275	262	13	<1	13
TOTAL		895	830	64	35	29⁽¹⁾

(1) We expect to receive full payment from High Grade fund which has positive NAV. Expected net shortfall for Enhanced Leverage fund has been reserved



Bear Stearns Asset Mgm't: What Went Wrong

Funding

- Funds were structured to allow equity holders redemptions every month while fund...
 - Held illiquid assets with opaque marks
 - Was exposed to regular mark to market and margin calls
 - Had no term funding – exacerbating the redemption / call situation

Leverage

- Enhanced was 12:1 and High Grade was 6:1 leverage
 - Dramatic market movement
 - Hedges did not perfectly offset asset movement
 - The situation quickly grew out of control as a result of the leverage being carried

Crisis Management

- "...Bear Stearns did too little too late..."
 - Naively assumed Wall Street creditors would hold off on margin calls (especially once the big investment banks were able to discount fears of systemic risk)
 - Failed to move quickly to back the less-troubled High Grade Fund
 - Bear Stearns should have been more sensitive to the expectation that since its name was on the funds' door, it could not just stand by



Bear Stearns Asset Mgm't: How Merrill Lynch Was Protected

- Portfolio Margin Agreements were critical
- Good understanding of our position
- Moved quickly & decisively – while maintaining constructive dialogues and making counter-proposals
- Efficient with respect to collateral call and margin processes
- Net exposure is against the High Grade fund which has positive Net Asset Value
- Moving through final stages (week of July 15) to resolve High Grade claim

