

**DRAFT
MEMORANDUM**

TO: File
FROM: Desi Duncker
DATE: March 4, 2010
RE: Teleconference with a cross-divisional Fidelity Investments team about the Commercial Paper market

This is not a transcript of the meeting and should not be quoted as such

Fidelity Investments:

Scott Goebel – Senior Vice President, Legal; Kevin Mahar – Attorney, Legal; Norm Lind – Head Trader, Fixed Income; and Nancy Fryer – Director of Research, Commercial Paper

FCIC

Tom Krebs, Mina Simhai, Troy Burrus, Hilary Allen, Landon Stroebel, and Desi Duncker

On Thursday, March 4, 2010 Tom Krebs, Mina Simhai, Troy Burrus, Hilary Allen, Landon Stroebel, and I had a conference call with Scott Goebel, Kevin Mahar, Norm Lind and Nancy Fryer of Fidelity Investments to discuss their perspective of the commercial paper (CP) market. *Note that the following is merely a synopsis of the comments of the Fidelity Investment team and is not necessarily a statement of fact or of the opinions of the FCIC team.*

Commercial Paper Market and Fidelity Investments' Perspective

In mid-2007, the commercial paper market became more uncertain, partly as a result of the subprime noise. Fidelity Investments (“Fidelity”, FI or “the Company”) had 66 approved names for asset-backed commercial paper (ABCP). Subsequently, they started looking harder at the various names and cut some of them. They also cut some durations of maturities for securities they were financing. Fidelity had to marshall cash, in case they ran into problems with their shareholders, as every night they invested their cash and put money to work. (The Company always invested its funds every night through the crisis, it just shortened the time frame of its investments and the counterparties it was willing to deal with.)

Really good, strong names, which previously might have been five basis points (“bps”) below LIBOR, were ending up 30 – 40 bps above LIBOR. For financial institutions, they started

to see more gapping out, beginning in mid-2007, when the market experienced its first shock. At that point, there was a liquidity flight due to fears about the quality of underlying assets.

Underlying asset quality drives ABCP liquidity, as some programs were much more transparent than others about the underlying assets. Some programs were funding receivables for companies. Other programs were funding mortgage-backed assets (some of which Fidelity pulled back from). FI took cash from some programs and diverted it into those program with better credit quality.

Asset-Backed Commercial Paper

Fidelity had a Special Purpose Bankruptcy-remote entity set up just for this program. There was a committed liquidity facility for the benefit of the ABCP noteholders. ABCP lines either have an 'outs-to-funding' trigger tied to the underlying assets, or have no 'outs-to-funding' trigger.

The ABCP lines got tighter. Material Adverse Change (MAC) clauses became more relevant.

In Response to FCIC Questions about Reliance on Counterparty or Collateral Quality

Fidelity has multiple determinants in a transaction, mainly who the provider is, and their credit with FI. (But the 'outs-to-funding' on a liquidity facility depends on the collateral.) There is a standard law that sets a high threshold for credit quality, and as such, there is a high standard to get on their approved list. FI re-evaluates this list very frequently, as more information comes in.

Fidelity does not rely on the rating agencies, as they're not permitted to. Rule 2a-7 requires them to monitor rating agencies but to use their own diligence and credit analysis. (An individual security is required to represent minimal credit risk.) They use their own analysis, including face-to-face meetings with the management team, etc. Counterparties are only eligible if they pass FI's two-pronged test. The industry as a whole does a good job, as most fund advisors recognize the statutory requirement.

Trading Protocol

Each morning the Portfolio Managers (PM) look at the parameters. They look at what's out there and what's available. The PMs decide where they want to be on the yield curve, using a lot of work from analysts. Fidelity's system electronically filters out unapproved names. The portfolios tend to be very consistent across managers—they all check liquidity and look for opportunities. This is very much an over-the-counter market, and the PMs sit next to the traders.

One of Fidelity's strengths is its level of experience.

Money Market Funds – After Lehman Brothers

The Money Market Funds (MMF) were being cautious. For example, even for Tier 2, Fidelity goes through the same rigorous credit analysis, looking at cash flow, liquidity, management, sector, asset quality, etc. After Lehman, the Tier 2 spread stayed relatively stable. Although very high-quality financial names paid much more (*i.e.*, from -5 to 30-40 bps over LIBOR), for non-financials nothing really changed.

This was a crisis of confidence. All short-term investors were marshalling cash. People began to have less cash. Market participants became concerned, as Fidelity became concerned about their exposure. There was a lack of confidence in getting money back. "The key is how was the guy next to you was investing, as it impacts all of us."

In Response to FCIC Questions about Overall Market Impact

Fidelity stated that as far as the repo market goes, JP Morgan is on the bi-lateral side, in addition to being a tri-party agent, so they could probably address better than the FI team can. In regards to the CP market, Fidelity couldn't see the exact impact but noted that really high-quality names were able to get cash.

In Response to FCIC Questions about Quantifying The Effects Mentioned

ABCP was 15% of Fidelity's assets before the crisis, but is 2% now. At the peak of the crisis, FI was down to 25 names (from 66), and is now down to 20, as some programs have gone away. The ABCP market was \$1.2 trillion before, but is \$400 billion now. Outstandings remain low, as companies aren't expanding.