Unofficial transcript of telephone call on 10 October 2008 between and an individual named Mark at the Federal Reserve Bank of New York. They were linked up by telephone by an unidentified staff member from the Sales Team in NY ("Unknown in Sales Team"). Barclays notes that the following transcript was prepared without the aid of a professional court reporter. However, Barclays believes that the transcript herein is complete and accurate.

: [Answers telephone]

Unknown in Sales Team: Hey Hold on one sec... Hey are you there sorry?

Mark: Yep

Unknown in Sales Team: Hey I have on the line who's trading the er dollar, front end of the curve for us.

Mark: Oh okay, Right, right.

Unknown in Sales Team: are you there mate?

: Yeah, I'm here.

Mark: Hey it's Mark at the New York Fed (NY Fed).

: Yeah, hi.

Mark: I was just wondering of you can provide any colour on what's happening I guess with the dollar libor fixings... I mean it looks like the front end of the curve people, the overnight tenor declined sharply... um...

: Yeah, that was ahh... we sort of... got a feeling from yesterday's overhang that maybe dollars would be cheap today er. There's been a lot of tiering.

Mark: Mm mm.

: Ah, I mean certain names have been paying up for money. We sort of don't really need too much money today, we don't think, so we' re being fairly unaggressive. In fact, someone's just given me some money at 0.2%.

Mark: Mm mm.

: Ah, but I think generally speaking, the market is probably 3%, 2% something like that with a few names paying the top. So, so, so the overnight market today is working very well. I would say that a couple of days ago it was not working well at all err, that's sort of after the RBS downgrade when everyone was scrambling for cash. Now they're still looking for cash, but there's not that panic that there was a couple of days ago. Um, libor's further out. I think it is just getting to where they should have been a week ago.

Mark: Mm mm.

: I don't know if you've looked at my libors but I've kept mine the same virtually every day for the last week and everyone seems to be gradually sort of coming up to my levels, and I can tell you that I'm putting levels in that I' m not sure I can trade or not, but I know they're more realistic than anyone else's. For instance today, there has been one offer of cash in one month and beyond. That was a 5.5 offer for 50 million one month out of Hong Kong. So, should I be going 5% my one month? I'm not really too sure, but I mean, you've got to go somewhere, haven't you?

Mark: Mmm mm.

: Um... so there is no term cash.

Mark: Right

: Ah, and it's the same story as it's been for the last two weeks. There's no term cash. The money funds don't want to do anything. Certainly with the state of. Every day a different bank goes down or there's different rescue packages, everyone's waiting for G7 you know there's always something this sort of 10% drop in Japanese stock exchange, you know. I mean the FTSE's down nearly 10%, so, you know, there's a sort of feeling the feeling we get is that.

Mark: You don't buy BTs(??) or anything.

: It is now going to start impacting the feelings of the man in the street. I think before that I should say that it was something that was happening in banking.

Mark: Right.

: Now, with stock markets dropping, you know 10%, 10%, this is people's pensions and things. You know we saw the thing with the Iceland, well. The UK banks, well the UK savers in Iceland, that, that crystallises people's thoughts, and so I think that we're sort of reaching a new stage in the game whereby the CPFF is really good but, not sure it goes far enough, it just gets you back to where you were in August.

Mark: Right.

: ... and what we've been seeing certainly here and probably you'll find at most banks is the amounts of unsecured money they're having to raise in the market is going up, not just because they have roll downs of liabilities, but also because the amounts of money that they have to lend internally um is going up because of things like increased haircuts, which obviously make the amount of unsecured money you have to borrow more, ahh, tighter collateral requirements, also just former avenues of securing finance sort of not really working all that well, like equity repo...

Mark: Mm mm

: ... and so... [To someone else at the desk - overnight trading at 1.5 coming out of New York, aah here] so overnight's working fine as I said. So, and RBS is still paying 2.5 so he needs money still.

Mark: Right.

: Um... So, I think, getting us back to where we were in August isn't really, is, don't get me wrong, it's incredibly useful, but I'm just wondering whether we need to be got back to August plus a bit. The UK guarantee to banks, again, it's a very, very positive thing but, a bit like the CPFF, no-one really knows the details, it's going to take several weeks to get off the ground, everyone is going to examine the guarantee and it's going to take a bit of time for things to start working there. So, again, that's sort of work-in-progress but that is very good news but... you know, the rumour came out that, you know, G8 were going to guarantee all bank deposits, and, you know that's.

Mark: How realistic do you think that is?

: Well, if you look at the amount of debt, or the amount of interbank lending there is, I mean, one of our guys has said there's something like 80 trillion, so I don't think that's realistic. What I think, and I know central banks don't like doing this, my view is that, everyone's talking about, "You've got to get into bank lending happening again. I don't think that's necessarily the important thing. I think the important thing is to get banks lending to the consumer.

Mark: Mm mm.

: ... to Joe Public so I think the way you do that, is you either do things like increase CPFF or you just um, do something similar, like just buying bank term CDs.

Mark: Mm mm.

: But I know central banks don't like doing that. But it's getting to the stage where everytime you and I think you guys tried to be ahead of the curve in the States, er everytime you throw the kitchen sink at the problem, it needs another sink and then another sink. Then there's euphoria for half a day then something else happens and the market plunges, something else has to happen, the the market plunges. It's almost as if, you know, you've got to me totally radical now.

Mark: Yeah.

: Ahh, because otherwise I had a fit of pessimism a couple of days ago. I think it was the day after RBS got downgraded when there was mayhem in the market and um I was thinking, you know, this is potential civil strife here because the banking system is just going to break down.

Mark: Mm mm.

: And people are talking. You know the papers and the news and the media over here are calling it, they're already calling it, "The Free Fall Friday".

Mark: Oh right.

: And that's going to hit the headlines, I can tell you, and people are going start worrying. So, I think it is. I can't overestimate the seriousness of the situation. And I'm not talking about it from a personal point of view or from Barclays or it's a systemic problem.

Mark: Right.

: And I'd love to know what you think because we've talked about what has to be done. Obviously, banks have got to replenish their capital.

Mark: Yep.

: But they also, they've got to start lending they've got to get the system going in some kind of way, shape or form.

Mark: Yeah, yeah. I mean, I think that, yeah, I mean certainly the gravity of the situation is, is ah very very, very important and very very serious and I think that everyone... well, there are many people out there that recognise the problem, but you know crafting the appropriate solution is ah as you well know, and have seen is somewhat challenging. I mean, we've tried things on our end and other global central banks have as well, and ah, you know, I can't imagine that those more senior than I will stop trying to do anything anytime soon.

: I believe you.

Mark: You know, I. We're obviously working on it and very concerned about all of this. [starts to make comment, but Mark from NY Fed asks,] My question to you though is, if I'm just looking at the libors and I see term go up very modestly and overnight decline very sharply, is this something that should be interpreted positively or is this just kind of a one off-type event, or is this having to do with all of the liquidity that is getting pumped into the system and finally banks just saying," At least overnight they, they have enough"?

: Yeah, ahh I think you're partially true. I mean, libors, the term libors are going up because they were unrealistic before and I've got to say I look at one-month libor at 4.59, that's unrealistic. You know, any libor, ahh with a four handle on it, from one to three months is wrong in my book.

Mark: Mm mm.

: Um, I mean you know I'll pay anybody 5% for one, two or three months, and you know, worse... and you know Barclays is seeing a "flight to quality" to its name so it's not as if I'm a rubbish name and people don't want to lend me, it's just people haven't got the money to lend. Occasionally they will come out, they'll lend at far higher up. The overnight is the thing that we talk about a lot actually because, you know, because it's the only market, really that anybody can get any liquidity in.

Mark: Mm mm.

: Even getting tom next, spot next, spot a week is difficult. Um, it's very, very, very important to us because I think, we're seeing the banks around the world are relying more and more and more on overnight and I suppose the worry for us is, even if the overnight market is functioning really well, which today it is because it's coming off and people seem to want to lend it. Which is great, you know, three days ago and all they want to do is borrow it.

Mark: And I mean is that just because there is less sort of specific name concern out there?

: I think there's just as much specific name concern as there was before.

Mark: Then I mean, then, then I, I guess I'm still struggling to really understand why today in particular there would be such a sharp decline in overnight rates.

: Well I think ahh well I'm not an expert on the ins and outs of overnight, but it seems to me that there was a pretty large surplus in the system...

Mark: Mm mm.

: ... and it seems that there's an overhang and it seems that people have got money to go. So, you know, for us it's extremely important that overnight trades softly.

Mark: Mm mm.

: Extremely. Extremely imp. Or certainly has a softer bias during the day.

Mark: Yeah.

: That's the thing is that there's nothing worse than trying to take money when it's being bid up by everybody else. At least when it's coming off you can bid in the middle of the price, you' re going to get money. You know, your lender is happy to lend you because he feels he's got a deal and all that kind of thing. But er it, it's, there's definitely a lot of name tiering, um there's a lot of country tiering. I noticed the other day that um when we were having er, big trouble, I was paying 6% for overnight and my New York was getting it at 4%, so I just pulled out of the market.

Mark: Yeah. So there is name and country...

: Yeah, because US-based lenders... you know, in the old days, you know if you were ahh a US borrower and, say Barclays New York and Barclays London, there would probably be say maybe a three-tick differential.

Mark: Mm mm.

: Well, now it's, you know, you name it, you name it.

Mark: 100 basis points.

: Yeah, that's it, so. But I think going back to the overnight its great that it's very, very liquid and everything else, that's really, really important, but but the thing I was going to say was that you know, if banks really do have more and more and more ahh to fund on an unsecured basis in the overnights, there, they will be worried that there will come a time when the global credit limit for their name runs out.

Mark: Mm mm.

: And, you know, I'm sure that banks are doing exactly like what we're doing there. They're finding every single piece of collateral that they can get their hands on and put it into, you know, any TAF or whatever facility that they can. But they will still have money left over unsecured that they've got to borrow.

Mark: Mm mm.

: That, that I think is the problem. I mean, we've been working [clears throat, "Excuse me"] very hard in the last week to, to, you know, get things which are not absolutely necessary to take off the books, you know. "Is that necessary? No, right, you're not doing any..."

Mark: "Get rid of it", right.

: and I think every bank will be doing the same. I mean, one of the reasons that I'm so calm today is that I know that by mid-next week I'm probably going to have to borrow, probably at least 10 yards of dollars less on the overnight than I did um yesterday. So, I sort of, feel slightly better about things.

Mark: Mm mm. Okay. I will. I really appreciate all your time this morning.

: It's no problem. Ring me when whenever you need to.

Mark: Allright. Thank you.

: Thanks a lot.

Mark: Bye.

: Bye.