Indie I-Banks: Dieing Dinosaurs or Burgeoning Behemoths?

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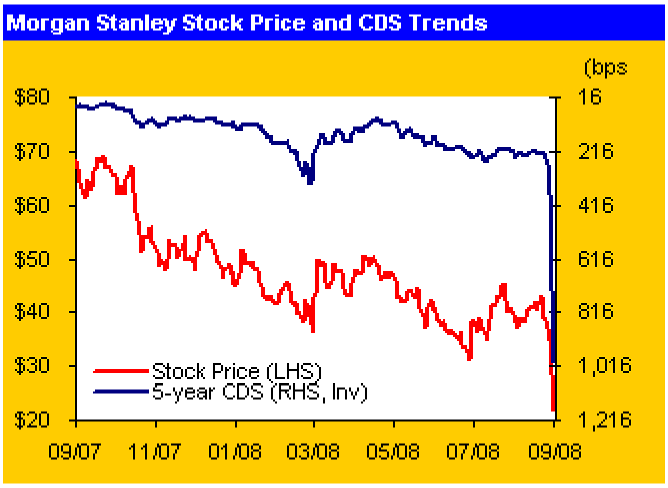
- Many big banks/brokers in M&A mating dances with various possibilities
- Wachovia/Morgan Stanley, Goldman/Wachovia have been mentioned in press
- Still JPMorgan CEO Dimon may covet Morgan Stanley's retail brokerage/cap markets/I-bank and won't let this one go
- Complications of timing with WaMu supposedly auctioning itself as mortgage mess presses the regulators to merge it fast
- So JPMorgan may have to choose to do one over the other, or risk doing both and the criticism that could follow
- We review the qualitative and some league table ramifications of these linkups

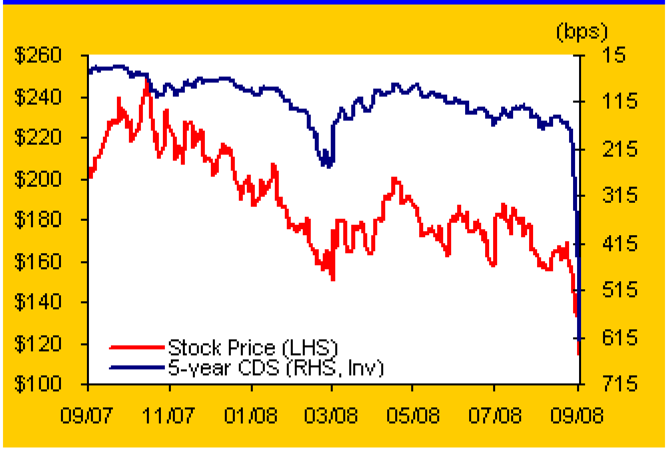
The last week or so has left the once mighty U.S. independent broker/dealer industry with only two major players left - Goldman Sachs and Morgan Stanley. Once viewed as the catalysts for new and innovative ways of generating financial profits, the future of the remaining two brokers is anything but clear. So the tables have turned as kings of hostile takeover advisory and muscular prop trading of the 2000s are now facing the other end of the stick. And they don't like being in this position: Morgan Stanley's CEO Mack expressed his concern on the hostile nature of the short-selling to various NY Senators and Treasury Secretary Paulson. Goldman Sachs has also noted that its financial strength is strong and that its stock price is not in-line with these fundamentals.



Source: Bloomberg, CMA, CreditSights

The old saying on Wall Street, "you can't fight the tape," seems to have became a reality as the media is reporting that Morgan Stanley and Goldman Sachs are pursuing refuge from the bear markets by considering combinations with depository institutions. Morgan Stanley is reportedly looking to do a deal with Wachovia, and Goldman Sachs is still quietly being said to be interested in that bank as well. A number of banks including JPMorgan, HSBC, and Wachovia seem to be the media white knights of choice for the remaining brokers although CITIC and other have also been mentioned as possibilities.

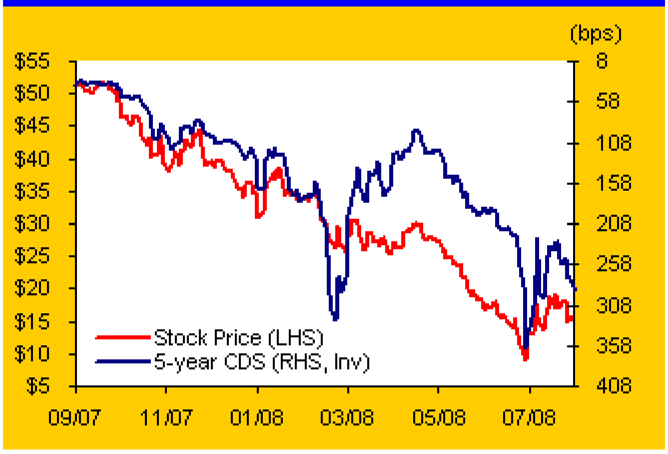
Goldman Sachs Stock Price and CDS Trends



Source: Bloomberg, CMA, CreditSights

Interrelated to the fate of the independent brokers is the outcome of the reported WaMu auction, which also hit the tape after the close. JPM is also thought to be interested in WaMu as is Wells Fargo. Wachovia may also prefer a bank suitor to a tie-up with a broker, which may push Wachovia toward Wells. Right now to us, it appears that there are more eligible companies (WaMu, Wachovia, Morgan Stanley, Goldman Sachs) than eligible suitors (JPMorgan, HSBC, Wells Fargo) if these matchups are to take place. Of course, we can't rule out other entrants to the fray.

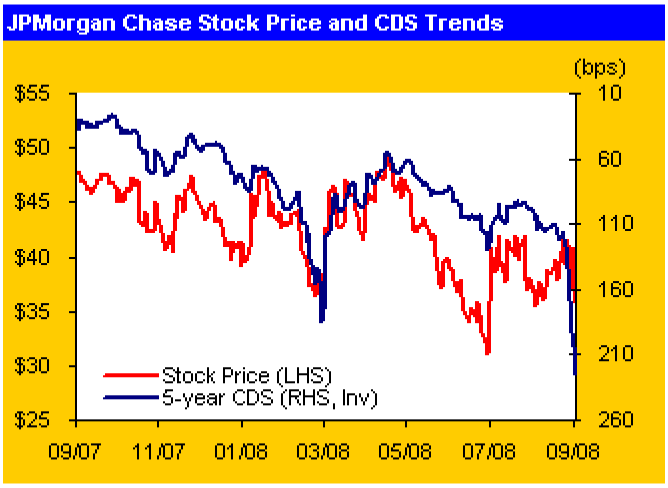
Wachovia Stock Price and CDS Trends



Source: Bloomberg, CMA, CreditSights

And the problem is that time is of the essence for many of the matches with WaMu, which was supposedly told by the regulators to auction itself off. In addition, Morgan Stanley and Goldman Sachs may not have the time for courting rituals, as the market wants nuptials now or more funding pain and counterparty concerns later.

Below we discuss some of the mega-trends that have shaken the cozy balance sheet conditions that formerly were the norm on Wall Street. Also, we provide more qualitative reasons for linkups between the stronger banks and the weaker banks and brokers. Finally we show the league table improvement on a pro forma combination fo JPMorgan and Morgan Stanley which is the more significant of the broker/bank linkups for these scenarios.



Source: Bloomberg, CMA, CreditSights

Deposits Are King, Sort of Like Cash Now
With the financial meltdown continuing, we have heard press reports that have indicated various merger partners among the investment banks and commercial banks. Specifically, it's been reported that **Wachovia** could tie up with either **Goldman Sachs** or **Morgan Stanley**. We have also heard that **JPMorgan Chase** could be interested in a merger with Morgan Stanley, which would re-unite the House of Morgan. **The rationale for any of these proposed mergers would be to link up a deposit-funded commercial bank with an investment bank to create a stronger, more stable and more revenues diversified institution.** Such an institution would be more likely to maintain its ratings in this Wall Street bear market brawling of late and be able to survive the weak capital market and investment banking conditions of the next several quarters.

Full Circle from Glass-Steagall Act of 1933
We note that if **JPMorgan Chase-Morgan Stanley** merger occurred, it would represent the historic reunion of The House of Morgan, which was forced to split up by the Glass-Steagall Act of 1933. The Glass-Steagall Act mandated the separation of commercial banks (which would have deposit insurance, also created in 1933) from securities firms. So, over the following decades, Glass-Steagall led to a bifurcation in U.S. financial industry into separate investment banking firms and commercial banks.

We note that this was a somewhat unique feature in the U.S., as most other nations did not have a similar rule and instead a "universal banking" model evolved abroad that eventually included the retail banking/asset management businesses. In the 1980s and 1990s, the lines between investment banking and securities firms started to blur and by 1999, the Glass-Steagall Act was repealed by Gramm-Leach-Bliley (GLB) to make way for the Citicorp-Travelers merger that had been announced previously in 1999. Travelers at the time owned Salomon Smith Barney which was the broker dealer that would unite with the bank, Citibank.

Now, it seems the **U.S. financial system has come full circle and now the markets are questioning the sustainability of the investment banking business model** following the recent collapses of Bear Stearns and Lehman Brothers (see: **Lehman: Follow Up to Filing**) and the quick sale of Merrill Lynch to BofA (see: **Bank of America: "The Big Bank" Daddy Buys Mother Merrill**). So, three of the top five securities firms have ceased to exist in a period of six months and questions are now being asked about the fate of the remaining two, **Morgan Stanley** and **Goldman Sachs**.

We note that both **Morgan Stanley** (see: **Morgan Stanley: 3Q08 Beats - Tops Broker Peers**) and **Goldman Sachs** (see: **Goldman Sachs: 3Q08 Beats - Cool Hand Luke**) tried to tamp down speculation of a bank merger in their recent 3Q08 earnings conference calls. Both stated that their business model was not broken, and they believed that they could continue to operate on a profitable basis through the credit cycle. Despite their resistance to business model change, we noted in our Goldman Sach's earnings note that we thought this was just posturing or a negotiation ploy for Goldman Sachs. We were skeptical, since we felt that Goldman would not want to telegraph its intentions to consider or actually buy a bank and see the stock of the target bid up and its stock sold off. We intimated that the same tactic could be employed by Morgan Stanley as well. Still, this has not seemed to quiet the pressure on their stocks, both of which were down -20%+ as of this writing. So, it seems that the **equity markets continue to be very skeptical that the remaining independent i-banks will survive on their own going forward.** Below, we review some of the issues that are driving this line of reasoning

Crisis of Confidence

In our view, there are **a couple of different issues that are being confused in the market right now**. The first issue is the **current market panic which involves aggressive short selling of certain financial firms.** In the case of Morgan Stanley and Goldman Sachs, there are concerns that these companies could lose the confidence of counterparties, especially if rating agencies act on the precipitous decline in the stocks to reduce credit ratings. This seems to be, in part, what happened to Lehman Brothers, when Moody's stated that it would downgrade the company unless it found a merger partner in short order. Moody's stated that "Lehman's financial flexibility has become more limited as its stock price has fallen to near all-time lows and the firm is experiencing a crisis of confidence." **So, market participants are likely concerned that the decline in the stock price for Morgan Stanley could cause the agencies to reassess the broker's financial flexibility, which could then prompt a negative ratings action. In turn, the downgrade itself could cause more deterioration as counterparties react to lower ratings thus reinforcing the negative feedback loop of despair.**

We note that the major broker-dealers are dependent on the confidence of counterparties to continue trading in the markets. In the case of Bear Stearns, we learned that what were supposedly "reliable" sources of funding, such as collateralized repos, can disappear without the confidence of trading counterparties.

Still, we view this confidence problem as a relatively short-term issue which is being induced by the very stressed market conditions we are seeing at the moment. In our view, the current stock declines appear to be a market overreaction and are not really supported by the facts which we know at this time. So the market is using the divining rod of whether a troubled company or broker is a Lehman or a AIG on the heels of those major bankruptcy and Fed-intervention actions. With Lehman, it is pretty clear that the vast majority of the unsecured debtholders were materially impaired due to the Chapter 11 filing of the holding company, Lehman Brothers Holdings, Inc. In the case of AIG, the intervention of the Fed as a super-senior lender and investor, has not led to an event of default on the insurers senior and subordinated debt.

We emphasize that both Morgan Stanley and Goldman Sachs **reported positive net profits in the 3Q08 earnings**, which we believe were impressive performances given the poor trading environment. Also, both companies reduced leverage and improved liquidity. Still, the markets are very nervous about the composition of these brokers' balance sheets as they wonder what other opaque risk positions lurk within it that could lead to material writedowns.

At this juncture, we continue to believe that these two brokers can manage through the current market conditions in the near term, as **both companies noted over $100 billion in available liquidity as of 3Q08.** Still, if these conditions persist for a sustained period of time, we cannot rule out that they would have an impact on each company's operations and could force each ones' hand. Assuming that rational market conditions do return within a reasonable time frame, we believe this issue can be dealt with and does not necessarily have to drive a merger of the brokers with a bank.

Broker Industry Model Broken?

However, aside from this short term confidence issue, **there are also longer term concerns about whether the investment banking industry can survive in its current form based on the investment banking industry structure.** This structure couples relatively high balance sheet leverage funded by wholesale funding. In the early 2000s, the balance sheet leverage employed by the brokers tended higher over a multi-year time period, while at the same time they piled on balance sheet exposure to less liquid assets. We had noted during the early to mid 2000s that the buildup of risk in "New Age Finance" and in combination with more riskier and less liquid balance sheet positions could lead to riskier fundamentals(see: **Goldman Sachs: 1Q Much Higher – Gets a Risk-Adjusted Return for "New-Age" Products**, and **Presentation to Capital Markets Credit Analyst Society (CMCAS): "The Challenges of a Flat Yield Curve"**).This was a contrast to earlier decades, when the brokers had been more reluctant to hold risky assets on their balance sheet, as they had less capital and were overall less inclined to take "principal" risk. This changed following the repeal of Glass-Steagall in 1999, **when the brokers realized that they would need to commit their balance sheets to deals in order to compete with big balance sheet banks such as Citigroup and JPMorgan Chase.**

Longer Term Liquidity Was Supposed To Stabilize Balance Sheet
The brokers felt that this higher concentration of illiquid assets could be offset by more stability in their funding, as the brokers mostly **funded illiquid assets with long-term debt and equity.** However, the drastic decline of liquidity in most all of these illiquid (aka Level 3) assets has driven massive write-downs. So, even though these assets were supposed to be funded with stable funding sources, the counterparty perception has been that their balance sheet has eroded and can destabilize market confidence. So, by merging with a commercial bank, the rationale is that brokers could perhaps then shift some of these less liquid assets to the banking balance sheet, which is typically funded by deposits. Also in the case of loans, the brokers could take advantage of held–to-maturity loan accounting which may not lead to as severe swings in valuation as mark-to-market and fair value accounting has.

U.S. Brokers: Tier 1 Ratio			
	3Q08	2Q08	Linked Δ
Morgan Stanley	12.7%	12.4%	0.3%
Goldman Sachs	11.6%	10.8%	0.8%
Lehman Brothers	11.0%	10.7%	0.3%
Merrill Lynch	ND	7.6%	
*Pro Forma Merrill Lynch**		*11.0%*	

Source: Company reports, CreditSights
*Inc. 3Q08 capital raised, sale of Bloomberg and FDS stakes

We note, however, that according to comments by Goldman Sachs in its 3Q08 conference call, a broker-dealer cannot use FDIC insured deposits to fund most broker-dealer activities. Still, **we sense that a bank merged with broker-dealer could likely fund some its mortgage assets and commercial loan commitments with deposits**. Although it still would not be able fund the trading operations on day to day basis with deposits, **the presence of a core deposit base could greatly expand the funding availability for a variety of brokerage assets.**

Also, more importantly, as part of a more diversified banking business, the broker would not be solely reliant on capital markets/investment banking/investment management businesses. Instead, general banking which is a source of day-to-day transaction processing and deposit activities could serve as a major revenues stabilizer. As capital markets/investment banking revenues remained rather parched for the next several quarters, as part of a more diversified banking company, brokers could have the ability to backfill revenues and support their unique broker/dealer franchises during the difficult quarters.

Another concern prompting the merger talk is **that broker-dealers will be subject to greater regulatory oversight** in light of the creation of the Fed's Primary Dealer Lending Facility. There may also be broader changes to financial system regulatory oversight in light of the current crisis. Most likely, any major overhaul would put the responsibility for broker dealers under the oversight of the Fed. So, there are concerns that the brokers will become more regulated and therefore not be able to employ higher balance sheet leverage going forward to drive earnings. On the one hand, this could be a good thing. But, it could also impair profitability over the long term. So, this could be another reason for the brokers to merge with a bank, as they will perhaps be subject to the same regulatory oversight as the banks anyway and **therefore by merging with a bank the combined company would have greater diversity of revenues and bigger overall franchise strength to withstand these periods of stress. So, we sense the U.S. financial industry could end up coming full circle back to a commercial/investment bank model that existed before 1933. However, now the model would include the retail and asset management/retail brokerage portions to further stabilize the revenues base and known as "universal banking" especially outside the U.S.**

Banks Might Want a Deal Too
We note as well that **a merger with a broker would seem to make sense for Wachovia,** which has been under a lot of pressure on its stock price due to deterioration in its option ARM mortgage portfolio. We note that Wachovia's recent market cap was approximately $21 billion, which compares to about $38 billion of tangible book equity as of 2Q08. So, if

Goldman or Morgan Stanley made a low premium offer for Wachovia, it could essentially be a take-under offer to price in the real estate risk. Our understanding of purchase accounting is that a buyer would then be able to take mark-to-market writedowns on the option ARM portfolio, and thereby reduce future credit provisions.

The rationale for JPMorgan Chase to buy a large broker after Bear Stearns could still make major sense as Bear provided expertise in prime brokerage and some areas of high net worth brokerage and mortgages too. Morgan Stanley would be a major league table move for the big bank as it would dominate or at least keep up with the other combinations noted of late including BAC/MER. Also, Morgan Stanley is the third largest retail brokerage company after Merrill Lynch and Smith Barney, and we believe that JPMorgan CEO Jamie Dimon still desires this form of distribution for investment products sold to higher net worth clientele. While a JPMorgan linkup with Goldman Sachs can not be ruled out, it would not come with the retail brokerage component, but instead a very high net worth asset management business.

JPM Morgan/Morgan Stanley - Proforma League Tables
We updated our league table to include an estimated proforma JPMorgan and Morgan Stanley entity to see how it would rank among peers. Combining volume and market share, we found that a **merged JPMorgan and Morgan Stanley would lead in overall underwriting, ranking first in six of the nine asset classes, even above our proforma Bank of American and Merrill Lynch estimates.** A JPMorgan/Morgan Stanley entity would rank first in global equity, investment grade, high yield, both announced and completed M&A, and syndicated loan underwriting. **It would still lag behind Bank of America/Merrill Lynch is ABS, CMO, and leverage loan underwriting**. We detail the results below.

Mergers & Acquisitions - Completed & Announced
In global completed M&A, JPMorgan ranked in the second spot with volume of $193.7 billion, and 34.3% market share. Morgan Stanley reported lower volume at $161.9 billion and 28.7% market share. We estimate a proforma JPMorgan and Morgan Stanley entity would **rank first in global completed M&A** with $355.6 billion in volume and 63.0% market share, trumping Goldman Sachs ($219.7 billion), and the proforma Bank of America/Merrill Lynch ($137.9 billion). **While Goldman has typically topped the M&A completed league table, a merger between JPMorgan and Morgan Stanley could be a major competitor for the top spot.**

Global Completed M&A Advisory								
Reported League Table		3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Deals	Mkt Shr	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$355,620*	*126*	*63.0%*	*$397,370*	*$368,817*	*-11%*	*-4%*
2	Goldman Sachs	$219,651	65	38.9%	$337,576	$265,615	-35%	-17%
3	JPMorgan	$193,745	72	34.3%	$205,902	$176,477	-6%	10%
4	Morgan Stanley	$161,875	54	28.7%	$191,468	$192,341	-15%	-16%
5	*PF BAC - MER*	*$137,900*	*72*	*24.4%*	*$176,162*	*$163,740*	*-22%*	*-16%*
6	Lazard	$132,658	37	23.5%	$27,112	$90,795	389%	46%
7	Citigroup	$130,747	61	23.2%	$184,673	$199,936	-29%	-35%
8	Merrill Lynch	$123,905	52	21.9%	$166,188	$128,811	-25%	-4%
9	Lehman Brothers	$123,149	38	21.8%	$281,340	$114,116	-56%	8%
10	UBS	$118,370	54	21.0%	$215,712	$151,385	-45%	-22%
11	Credit Suisse	$113,231	73	20.1%	$186,875	$108,310	-39%	5%
12	Deutsche Bank	$91,988	49	16.3%	$185,191	$75,889	-50%	21%
13	Bank of America	$13,995	20	2.5%	$9,973	$34,929	40%	-60%
	Total Industry	**$564,632**	**4,237**	**100%**	**$730,107**	**$925,596**	**-23%**	**-39%**

$ in millions

Source: Bloomberg, CreditSights

M&A Announced - Future Profitability
Looking at potential future revenue streams, global announced M&A for JPMorgan ranked among the top players with volume of $228.0 billion and 26.8% market share. Morgan Stanley has slightly lower 3Q08 volume of $219.9 billion and 25.8% market share. Combining the two companies, we estimate it would **rank first in global announced M&A** with volume of $404.1 billion and 47.5% market share, followed by a proforma Bank of

America/Merrill ($275.5 billion), Citigroup ($245.1 billion), and Goldman Sachs ($230.6 billion). **Looking at market share, we estimate that a JPMorgan/Morgan Stanley entity would still have a 15.2% lead over Bank of America/Merrill.**

Global Announced M&A Advisory								
Reported Table		3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Deals	Mkt Shr	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$404,084*	*178*	*47.5%*	*$314,915*	*$543,963*	*118%*	*-6%*
2	*PF BAC - MER*	*$275,502*	*100*	*32.3%*	*$126,360*	*$294,018*	*118%*	*-6%*
3	Citigroup	$245,084	62	28.8%	$159,074	$353,985	54%	-31%
4	Goldman Sachs	$230,598	78	27.1%	$249,487	$393,390	-8%	-41%
5	JPMorgan	$228,049	93	26.8%	$159,067	$288,288	43%	-21%
6	Merrill Lynch	$219,871	84	25.8%	$77,954	$216,794	182%	1%
7	Morgan Stanley	$176,035	85	20.7%	$155,849	$255,675	13%	-31%
8	UBS	$175,629	92	20.6%	$117,014	$209,189	50%	-16%
9	Deutsche Bank	$169,162	66	19.9%	$106,511	$351,714	59%	-52%
10	Lehman Brothers	$125,925	47	14.8%	$81,129	$240,211	55%	-48%
11	Lazard	$118,195	56	13.9%	$30,100	$75,821	293%	56%
12	BNP Paribas	$109,884	26	12.9%	$54,295	$23,513	102%	367%
13	Bank Of America	$55,632	16	6.4%	$48,406	$77,224	15%	-28%
	Total Industry	**$851,371**	**6,652**	**100%**	**$733,455**	**$1,187,724**	**16%**	**-28%**

$ in millions

Source: Bloomberg, CreditSights

Equity and Equity-Linked

Global equity and equity-linked volume for the broker 3Q08 showed declines for both JPMorgan and Morgan Stanley. JPMorgan ranked in the top ten with $10.0 billion in volume and average fees of 3.02%, while Morgan Stanley ranked slightly higher with $11.4 billion in volume and average fees of 2.96% for the quarter. **A proforma combined entity had an estimated volume of $21.4 billion and a weighted average fee of 2.99%, ranking first in equity underwriting above the combined Bank of America/Merrill Lynch ($17.8 billion) and Goldman Sachs ($10.1 billion).**

Global Equity and Equity Linked Underwriting								
Reported League Table		3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Avg Fee	Issues	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$21,429*	*2.99%*	*75*	*$40,274*	*$35,512*	*11%*	*-17%*
2	*PF BAC - MER*	*$17,767*	*2.71%*	*44*	*$16,016*	*$21,453*	*11%*	*-17%*
3	Merrill Lynch	$15,624	2.62%	29	$8,179	$19,086	91%	-18%
4	Morgan Stanley	$11,409	2.96%	32	$14,215	$19,121	-20%	-40%
5	Goldman Sachs	$10,146	3.34%	41	$17,901	$12,584	-43%	-19%
6	JPMorgan	$10,020	3.02%	43	$26,059	$16,391	-62%	-39%
7	UBS	$8,385	3.10%	36	$10,489	$18,649	-20%	-55%
8	Lehman Brothers	$8,163	3.43%	16	$12,053	$8,027	-32%	2%
9	Credit Suisse	$7,685	2.39%	35	$4,365	$17,023	76%	-55%
10	Citigroup	$5,212	2.91%	33	$25,206	$20,105	-79%	-74%
11	Dresdner Kleinwort	$4,129	N/A	3	$421	$540	881%	665%
12	Deutsche Bank	$3,678	3.39%	28	$7,337	$14,322	-50%	-74%
13	Bank of America	$2,143	3.33%	15	$7,838	$2,366	-73%	-9%
	Total Industry	**$125,573**	**2.56%**	**441**	**$132,462**	**$221,459**	**-5%**	**-43%**

$ in millions

Source: Bloomberg, CreditSights

Fixed Income

Investment Grade Corporates

JPMorgan ranked first in 3Q08 investment grade underwriting $16.2 billion, while Morgan Stanley had $9.2 billion in volume. However, a proforma Bank of America/Merrill took over as the leader with $18.9 billion in volume. **Yet we note that a combined JPMorgan and Morgan Stanley would possibly top this to rank first in investment grade fixed income**

underwriting with estimated volumes of $25.5 billion. If JPMorgan adds Morgan's investment grade underwriting book, there is potential for it to hold on to its top spot in investment grade underwriting where Bank of America/Merrill show a potential threat.

U.S. Investment Grade Underwriting									
Reported League Table		Broker 3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Avg Fee	Issues	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$25,489*	*0.55%*	*112*	*$68,473*	*$41,294*	*-63%*	*-38%*
2	*PF BAC - MER*	*$18,906*	*0.88%*	*196*	*$66,710*	*$48,138*	*-72%*	*-61%*
3	JPMorgan	$16,240	0.53%	69	$41,516	$18,620	-61%	-13%
4	Citigroup	$13,546	0.83%	47	$47,045	$38,891	-71%	-65%
5	Bank of America	$11,814	0.61%	144	$37,271	$26,153	-68%	-55%
6	Morgan Stanley	$9,249	0.58%	43	$26,958	$22,674	-66%	-59%
7	Goldman Sachs	$9,088	0.35%	39	$21,418	$18,090	-58%	-50%
8	Credit Suisse	$8,121	0.40%	29	$16,948	$3,873	-52%	110%
9	Merrill Lynch	$7,093	1.32%	52	$29,439	$21,985	-76%	-68%
10	RBS	$5,692	0.59%	26	$8,463	$3,250	-33%	75%
11	UBS	$5,177	0.62%	25	$11,565	$4,599	-55%	13%
12	Lehman Brothers	$4,829	0.53%	35	$22,263	$15,791	-78%	-69%
	Total Industry	**$115,589**	**0.63%**	**312**	**$321,623**	**$238,368**	**-64%**	**-52%**

$ in millions

Source: Bloomberg, CreditSights

U.S. High Yield Corporates

JPMorgan was ranked in the top five in volume of high yield underwriting compared to peers in 3Q08. JPMorgan had $3.2 billion in volume with 13 issues. On the other hand, Morgan Stanley had a slight lead as the top player with $4.8 billion in volume and 27 issues. We previously noted that a proforma BofA/Merrill would rank first with $4.9 billion in volume. **However the proforma combined high yield underwriting book of JPMorgan/Morgan Stanley would push it back into first place in high yield fixed income underwriting with $8.0 billion, giving it a marginal lead of $3 billion over BofA/Merrill.**

U.S. High Yield Underwriting								
Reported League Table		Broker 3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Avg Fee	Issues	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$8,013*	*N/A*	*40*	*$6,108*	*$5,945*	*31%*	*35%*
2	*PF BAC - MER*	*$4,905*	*N/A*	*26*	*$4,725*	*$4,685*	*4%*	*5%*
3	Morgan Stanley	$4,770	N/A	27	$938	$2,164	409%	120%
4	Bank of America	$4,755	2.00%	24	$3,666	$1,550	30%	207%
5	Credit Suisse	$4,734	1.29%	12	$2,377	$3,433	99%	38%
6	JPMorgan	$3,242	2.11%	13	$5,170	$3,781	-37%	-14%
7	Citigroup	$2,046	1.81%	12	$1,726	$2,581	19%	-21%
8	UBS	$1,499	1.41%	10	$837	$1,715	79%	-13%
9	Goldman Sachs	$1,116	1.00%	9	$1,800	$1,817	-38%	-39%
10	RBS	$877	1.50%	8	$1,077	$723	-19%	21%
11	Wachovia	$698	1.83%	8	$595	$2,110	17%	-67%
12	Deutsche Bank	$661	N/A	7	$1,368	$2,771	-52%	-76%
13	Merrill Lynch	$150	N/A	2	$1,058	$3,135	-86%	-95%
	Total Industry	**$26,055**	**1.50%**	**49**	**$24,623**	**$31,284**	**6%**	**-17%**

$ in millions

Source: Bloomberg, CreditSights

CMOs

JPMorgan was a among the top ten players in CMO issuance in 3Q08 with volume of $5.3 billion and market share of 6.0%, but substantially behind the proforma Bank of America and Merrill Lynch, which had an estimated volume of $26.1 billion and 31.3% market share. **However, Morgan Stanley did not rank among the top players and volume data was not available through Bloomberg. Thus, we were not able to combine CMO issuance.**

CMO Issuance							
Reported League Table		Broker 3Q08		Broker 2Q08		Change	
Rank	Bank	Volume	Mkt Shr	Volume	Mkt Shr	Volume	Mkt Shr
1	*PF BAC - MER*	*$26.1*	*31.3%*	*$7.0*	*11.1%*	*273%*	*20.2%*
2	Bank of America	$21.1	25.3%	$2.9	4.6%	628%	20.7%
3	Deutsche Bank	$7.3	8.8%	$3.8	6.0%	92%	2.7%
4	Barclays	$7.2	8.6%	$7.0	11.1%	3%	-2.5%
5	Credit Suisse	$6.6	7.9%	$7.4	11.7%	-11%	-3.8%
6	Lehman Brothers	$6.2	7.4%	$5.5	8.7%	13%	-1.3%
7	JPMorgan Chase	$5.3	6.4%	$3.2	5.1%	66%	1.3%
8	Merrill Lynch	$5.0	6.0%	$4.1	6.5%	22%	-0.5%
9	RBS Greenwich Capital	$4.3	5.2%	$4.0	6.3%	8%	-1.2%
	Other	$20.4	24.5%	$25.1	39.8%	-19%	-15.4%
	Total	**$83.4**		**$63.0**		**32%**	

$ in billions
Source: Bloomberg, CreditSights

ABS Issuance
Additionally, JPMorgan was among the top players in ABS issuance in 3Q08 with $3.8 billion in volume and 7.7% in market share. On the other hand, Morgan Stanley did not place in the top ten issuers of ABS, and volume was not available through Bloomberg. **Therefore, we were not able to combine ABS issuance. However we note that JPMorgan lags behind Bank of America by $3.2 billion, or about 84% of its current issuance**.

ABS Issuance							
Reported League Table		3Q08		2Q08		Change	
Rank	Bank	Volume	Mkt Shr	Volume	Mkt Shr	Volume	Mkt Shr
1	Bank of America	$7.0	14.1%	$7.4	9.7%	-5%	4.4%
2	Citigroup	$5.3	10.7%	$13.2	17.3%	-60%	-6.6%
3	JPMorgan	$3.8	7.7%	$10.1	13.2%	-62%	-5.6%
4	Lehman Brothers	$3.6	7.3%	$8.5	11.1%	-58%	-3.9%
5	RBS Greenwich Capital	$3.3	6.7%	$2.1	2.8%	57%	3.9%
6	Deutsche Bank	$2.9	5.9%	$4.9	6.4%	-41%	-0.6%
7	Barclays	$2.6	5.3%	$4.1	5.4%	-37%	-0.1%
8	Credit Suisse	$1.9	3.8%	$4.2	5.5%	-55%	-1.7%
9	Merrill Lynch	NA	NA	$0.5	0.8%	NA	NA
	Other	$19.1	38.6%	$21.8	28.6%	-12%	10.0%
	Total Industry	$49.5		$76.3		-35%	

$ in billions
Source: Bloomberg, CreditSights

U.S. Syndicated Loans
U.S. Syndicated loans underwriting for JPMorgan had volume of $46.4 billion and market share of 25.4% in 3Q08. Morgan Stanley had volume lower than peers at $2.6 billion and 1.4% market share. **Combining volumes, a proforma entity would marginally increase volume to an estimated $49.1 billion with a market share of 26.8%, ranking it first in U.S. syndicated loans above proforma BofA/Merrill with volume of $31.6 billion and 17.2% market share**.

U.S. Syndicated Loans								
Reported League Table		Broker 3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Issues	Mkt Shr	Volume	Volume	Linked	YoY
1	*PF JPM - MS*	*$49,072*	*96*	*26.8%*	*$53,008*	*$137,828*	*-7%*	*-64%*
2	JP Morgan	$46,441	89	25.4%	$43,939	$132,160	6%	-65%
3	*PF BAC - MER*	*$31,580*	*91*	*17.2%*	*$34,805*	*$101,728*	*-9%*	*-69%*
4	Bank of America	$31,127	86	17.0%	$33,341	$85,498	-7%	-64%
5	Citigroup	$17,555	24	9.6%	$25,456	$85,996	-31%	-80%
6	RBS	$15,011	15	8.2%	$2,746	$9,765	447%	54%
7	Deutsche Bank	$13,714	12	7.5%	$8,497	$14,274	61%	-4%
8	Goldman Sachs	$8,250	8	4.5%	$2,819	$24,393	193%	-66%
9	Wachovia	$6,153	36	3.4%	$8,682	$41,137	-29%	-85%
10	BNP Paribas	$4,894	16	2.7%	$1,664	$3,231	194%	51%
11	UBS	$4,383	7	2.4%	$1,796	$12,270	144%	-64%
12	Barclays Capital	$4,115	8	2.3%	$2,327	$9,351	77%	-56%
13	Morgan Stanley	$2,631	7	1.4%	$9,069	$5,668	-71%	-54%
14	Merrill Lynch	$453	5	0.2%	$1,464	$16,231	-69%	-97%
	Total Industry	**$182,660**	**278**	**100%**	**$175,493**	**$555,349**	**4%**	**-67%**

$ in millions
Source: Bloomberg, CreditSights

Leveraged Loans
JPMorgan had $17.0 billion in volume of leveraged loan underwriting and 19.8% market share. Morgan Stanley's volume was lower than peers at $845 million and 0.9% market share. **Together, we estimate the two companies would increase volume to $17.8 billion and 20.7% market share, making it a close second ranked in leveraged loans behind a proforma Bank of America/Merrill entity with $18.3 billion in volume and 21.3% market share**.

U.S. Leveraged Loans								
Reported League Table		Broker 3Q08			2Q08	3Q07	% Change	
Rank	Bank	Volume	Issues	Mkt Shr	Volume	Volume	Linked	YoY
1	*PF BAC - MER*	*$18,288*	*63*	*21.3%*	*$17,747*	*$36,853*	*3%*	*-50%*
2	Bank of America	$17,835	58	20.8%	$16,283	$27,131	10%	-34%
3	*PF JPM - MS*	*$17,810*	*56*	*20.7%*	*$22,145*	*$49,525*	*-20%*	*-64%*
4	JPMorgan	$16,965	50	19.8%	$13,243	$43,857	28%	-61%
5	Goldman Sachs	$6,950	7	8.1%	$2,819	$13,535	147%	-49%
6	Citigroup	$5,795	10	6.8%	$8,275	$26,276	-30%	-78%
7	RBS	$5,318	5	6.2%	$660	$2,855	706%	86%
8	Wachovia	$4,994	28	5.8%	$3,838	$19,449	30%	-74%
9	GE Capital	$2,742	14	3.2%	$1,938	$7,612	41%	-64%
10	BNP Paribas	$2,514	12	2.9%	$1,304	$2,767	93%	-9%
11	UBS	$2,467	4	2.9%	$1,546	$10,578	60%	-77%
12	Deutsche Bank	$2,184	7	2.6%	$7,556	$7,138	-71%	-69%
13	Morgan Stanley	$845	6	0.9%	$8,902	$5,668	-91%	-85%
14	Merrill Lynch	$453	5	0.5%	$1,464	$9,722	-69%	-95%
	Total Industry	**$85,592**	**194**	**100%**	**$81,645**	**$242,033**	**5%**	**-65%**

$ in millions
Source: Bloomberg, CreditSights

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