



From: Christopher Cox, SEC  
To: Dr. Nout Wellink, Basel Committee

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cc: Michel Prada, International Organization of Securities  
Tokio Morita, IOSCO Standing Committee  
Mario Draghi, Financial Stability Forum

March 20, 2008

Dr. Nout Wellink  
Chairman  
Basel Committee on Banking Supervision  
Centralbahnplatz 2  
CH-4002 Basel  
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the conclusion to which these data point is that the fate of Bear Stearns was the result of a lack of confidence, not a lack of capital. When the tumult began last week, and at all times until its agreement to be acquired by JP Morgan Chase during the weekend, the firm had a capital cushion well above what is required to meet supervisory standards calculated using the Basel II standard.

Specifically, even at the time of its sale on Sunday, Bear Stearns' capital, and its broker-dealers' capital, exceeded supervisory standards. Counterparty withdrawals and credit denials, resulting in a loss of liquidity - not inadequate capital - caused Bear's demise.

Bear Stearns had a capital ratio of well in excess of the 10% level used by the Federal Reserve Board in its "well-capitalized" standard.

Sincerely,

Christopher Cox  
Chairman

cc: Michel Prada, Chairman, International Organization of Securities Commissions (IOSCO)

Tokio Morita, Chairman, IOSCO Standing Committee Three

Mario Draghi, Chairman, Financial Stability Forum

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It is worth noting, however, that net capital rules are designed to preserve investors' funds and securities in times of market stress, and they served that purpose in this case. This investor protection objective was amply satisfied by the current net capital regime, which - together with the protection provided by the Securities Investor Protection Corporation (SIPC) and the requirement that SEC-regulated broker-dealers segregate customer funds and fully-paid securities from those of the firm - worked in this case to fully protect Bear's customers.

#### **Data Concerning Bear Stearns' Liquidity and Broker-Dealer Regulatory Capital**

The following data provided to our Division of Trading and Markets by Bear Stearns describe the firm's capital and liquidity position at the holding company level prior to and during last week's events, and the capital in the firm's two SEC-registered broker-dealers: