

Lehman Brothers International (Europe) In Administration

Joint Administrators' progress report
for the period 15 March 2009 to 14 September 2009

14 October 2009

Contents

Section 1	Purpose of the Joint Administrators' progress report	1
Section 2	Executive summary	3
Section 3	Management and reporting	5
Section 4	General unsecured estate	11
4.1	Counterparties	12
4.2	Intercompany	17
4.3	Overseas Branches	20
4.4	House depot securities	22
4.5	Proposed mechanism for future creditors distribution	24
Section 5	Trust estate	25
5.1	Client depot securities	26
5.2	Trust Property and Client Money	28
5.3	Client Asset return framework	31
Section 6	Middle office functions	33
6.1	Failed Trades	34
6.2	Corporate events and income processing	36
6.3	Terminations and Valuations	37
Section 7	Back office functions	39
7.1	Treasury	40
7.2	Reporting	41
7.3	Information Technology	42
7.4	Infrastructure and Property	44
7.5	Human Resources	45
7.6	Regulatory and Compliance	47
7.7	Tax	49
Section 8	Statutory and other information	51
8.1	Statutory information	52
8.2	Extension of the Administration	53
8.3	Statement of Affairs	54
8.4	Administrators' Remuneration	55
Appendices		
Appendix A	Receipts and payments to 14 September 2009	60
Appendix B	LBIE contact details	63
Appendix C	Glossary of terms	64

Section 1

Purpose of the Joint Administrators' progress report

Introduction

This report has been prepared by the Joint Administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE" or the "Company") under Rule 2.47(3)(a) of the Insolvency Rules 1986 (the "Rules"). It is the third formal update to creditors, the previous report being issued on 14 April 2009.

This report provides details of progress in the Administration between 15 March 2009 and 14 September 2009.

The Directors Statement of Affairs ("SoA") for LBIE was submitted to the Administrators on 8 July 2009 and was filed with Companies House and the Court shortly thereafter. References to the SoA in this report refer to that document.

The Administrators have not duplicated information disclosed to creditors in previous updates and reports. Creditors are advised to refer to the Administrators' progress report dated 14 April 2009, for background information surrounding the objectives and processes for each of the specialist teams of LBIE. A copy of the April 2009 progress report can be found on www.pwc.co.uk/lehman.

Creditors will note that this report does not include an estimate of the likely level of recoveries for unsecured creditors. Very material uncertainties continue to exist regarding the timing and realisable value of assets and the eventual level of creditors' claims. The Administrators wish to caution creditors from using the data in this report to estimate likely dividends as any such estimates are likely to be materially misleading. We intend to provide guidance on possible dividend levels in due course.

Objective of the Administration

As previously communicated to creditors, the Administrators are pursuing the objective of achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration).

The specific aims of the Administration are to:

- Realise all assets, including all cash, securities and in-the-money financial contracts on a managed basis;
- Mitigate as far as is possible and agree in principle the claims of all stakeholders and counterparties; and
- Manage Client Assets and Client Monies, assess the claims to such assets and return all Trust Property to their rightful owners on a systematic basis.

Creditors' Committee

The Administrators continue to meet with the Creditors' Committee (the "Committee") regularly to review progress and consult on critical issues by way of physical meetings and conference calls. In addition to the five full day meetings we have held with the Committee to date, we continue to have regular calls to share progress and take counsel. In addition, significant time has been committed by members of the Committee to progress the terms for the return of Client Assets.

Extension of the Administration

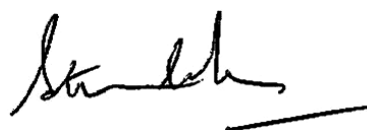
Under the provisions of the Insolvency Act 1986 ("IA86"), paragraph 76(2)(a) of Schedule B1, the appointment of an administrators ends automatically after 12 months, unless extended by the Court.

Further to an application made by the Administrators, the UK High Court of Justice granted an Order extending the period of Administration to 30 November 2011.

Future Reports

The Administrators' next formal progress report to creditors will be in six months time.

Signed:



SA Pearson
Joint Administrator
Lehman Brothers International (Europe)

Section 2

Executive summary

Objective

The objective of the Administration is to achieve a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration).

Progress to date

We are pleased to report considerable progress in the 12 months to 14 September 2009, in particular:

- The Administrators have gained control of c.\$40bn of securities and cash, as follows:
 - \$13.7bn cash has been realised and brought under the Administrators' control, comprising of \$10.2bn House asset realisations, \$0.9bn pre-Administration Client Money and \$2.6bn in post-Administration client related receipts;
 - \$11.3bn in securities (14 September 2009 value) are under the Administrators' control;
 - \$13.3bn was returned to clients, as either cash or securities; and
 - Some \$1.0bn of collateral held by third parties has been released to LBIE clients at the Administrators' instigation.
- Net cash balances of \$11.7bn (House \$9.2bn; Client \$2.5bn) were held at 14 September 2009.
- Fund managers have been retained to manage realised House funds within a strict investment policy.

Counterparty settlement

- Robust processes have been embedded to systematically reconcile, value and agree close-out amounts on a counterparty-by-counterparty basis.
- Material progress has been made in reconciling and settling positions with some 1,400 of the c.6,000 counterparties. A large number of counterparties have made on account payments to LBIE.

Intercompany

- Gross claims filed or in the process of being filed by LBIE against over 20 Affiliate Lehman entities total c.\$208bn. At this stage, there is no visibility as to the level of recoveries.
- The Administrators' continue to liaise with Affiliates with the objective of establishing a common platform of information and understanding.

House Depot Securities

- Some \$2.6bn has been realised from securities held in non-segregated accounts.
- An exercise is ongoing with Affiliates to establish the ownership of securities totalling some \$6.0bn. Formal proceedings have been initiated by the Administrators in the UK High Court to establish ownership (the "RASCALS Directions").

Trust Estate

- A framework for the return of Client Assets has been developed by way of a Scheme of Arrangement under the Companies Act 2006 (the "Client Asset Scheme"). A core principle of the Client Asset Scheme is subject to an appeal in the UK High Court, which is scheduled to be heard later this month.
- A fallback position to the Client Asset Scheme has been identified and is being further developed with representative affected clients and unsecured creditors. Information on the alternative proposal has recently been shared with affected clients.
- \$35.2bn was recorded as being held in client inventory at 15 September 2008. Of this amount:
 - \$13.3bn has been returned to clients;
 - \$0.4bn is held as cash for redeemed positions; and
 - The market value of client holdings has declined by \$5.4bn.

- Of the residual \$16.1bn of Client Assets:
 - \$8.9bn is held in LBIE controlled depots;
 - \$6.9bn has yet to be returned by Lehman Brothers, Inc (“LBI”) and Lehman Brothers Japan KK (“LBJ”) (valued at 15 September 2008); and
 - \$0.3bn is held by third party custodians who have yet to accede control to LBIE.
- \$2.5bn (net) is included in the various client accounts, comprising \$0.9bn in pre-Administration Client Money and \$1.6bn in post-Administration redemptions, dividends and interest.
- Formal proceedings have been initiated in the UK High Court to confirm the ownership of certain sums held in these accounts.
- Over 1,500 clients had segregated funds as at 15 September 2008. Many competing claims to Client Monies have been identified and the Administrators have commenced proceedings in the UK High Court to determine client entitlements.
- \$1.0bn is receivable from Lehman Brothers Bankhaus A.G. (“Bankhaus”) in respect of Client Monies. Bankhaus is in insolvency proceedings in Germany. We have been working to ensure claims against Bankhaus are optimised as far as possible.
- A comprehensive income processing function has been established to manage sums received in relation to securities held by LBIE (both House and Client).

Other matters

- Over 440 Lehman staff and contractors continue to support the LBIE Administration. These staff are central to our management and recovery efforts.
- An ongoing cost reduction initiative has been implemented to reduce infrastructure spend by \$120m per annum.
- Extensive communication has been provided to LBIE counterparties and to the market generally, specifically Client Assets and Client Monies updates on www.pwc.co.uk/lehman.

Pending and failed trades/OTC valuations

- Over 840,000 pending and failed trades existed at 15 September 2008. These have been fully valued and reconciled. An exercise is ongoing to apply these failed trades to counterparties. A process for pursuing receivables is established.
- The majority of LBIE’s c.158,700 over-the-counter (“OTC”) derivative trade legs have been revalued and reconciled.

Issues affecting recovery and dividend forecasts

- In our report of 14 April 2009, we cautioned creditors about relying on the book values of assets and liabilities in assessing dividend prospects. We refer you to remarks made at that time, they have not been repeated in this report.
- We note that since our previous report, some 2,750 counterparties have submitted claims against LBIE. As anticipated, claims are materially higher than amounts in the SoA, reflecting a number of factors. By way of illustration, creditors with a SoA value of \$7.0bn have filed claims totalling over \$21.0bn. At this stage we have not settled or agreed these claims but reiterate our observation that claims are likely to materially exceed those in the SoA.

Creditors’ claims

No bar date has been established yet for claims, however, creditors should continue to submit their claims to the Administrators electronically via the LBIE Client Information and Claims website.

If you have already completed a Statement of Claim, or submitted your claim details on the LBIE Client Information and Claims website, you do not need to do anything further at this stage. Creditors and counterparties will be updated in respect of the claims process in due course.

Future strategy and actions

The Administrators’ activities remain focused on asset realisation and the determination of counterparty claims, together with finalising a mechanism for the return of Trust Property to clients.

Section 3

Management and reporting

Developments in the Administration since 15 March 2009

In the Administrators' previous progress report, we reported that control had been successfully exerted over the Company, its business processes and personnel. We also outlined how the business was being managed under a revised Operating Model and management framework to wind down its affairs and reconcile its various counterparty and market positions.

At the beginning of 2009, the Administrators' concluded a major cost reduction exercise and finalised the transition of numerous Lehman staff to Nomura Holdings, Inc ("Nomura"). Since that time, the Administrators have further re-shaped and refined the approach to concentrate skills and resources in teams using a set of resolution methodologies.

The teams comprise:

- **Front office teams:** Specialist teams focused on achieving the objectives of the Administration. The teams comprise:
 - Counterparties;
 - Intercompany;
 - Depot securities; and
 - Trust Property.

- **Middle and Back office teams:** these teams handle all operations and processes necessary to enable efficient implementation of the Administrators' plans. They include specialist groups managing:
 - Failed trades;
 - Corporate events and income processing;
 - Terminations and Valuations;
 - Valuations;
 - Treasury;
 - Reporting;
 - Information Technology;
 - Infrastructure and Property;
 - Human Resources;
 - Regulatory and Compliance; and
 - Tax.

In addition, various overseas branches continue to be managed using central and local resources to recover assets and to protect and agree claims in 13 jurisdictions.

The revised Operating Model has proven to be critical in creating a high degree of control and functional efficiency and has ensured that the LBIE staff and contractors have been able to work effectively with teams from the Administrators' staff and various third party legal advisers.

Further evolution of this operating structure is planned over the coming months to refine activities as priorities change.

Priorities

In the Administrators' progress report dated 14 April 2009, the Administrators advised that priorities have been focused on realising value from LBIE's market positions. The primary objective at that time was to settle positions to recover cash for creditors.

LBIE's activity has now been extended to cover the progression and settlement of counterparty claims. This revision to our approach will enable the Administrators to begin to form a view on the level of claims against the estate.

The Administrators expect significant resources will be required to progress the run-off of LBIE's business over the next 12 months. Activities are clearly focused on ensuring material progress is made, particularly in settling counterparty positions.

Management and control

Weekly meetings of the LBIE management team (chaired by one of the Administrators and comprising of the heads of each of the specialist teams) review progress across the case and address critical issues. Bi-weekly financial information is prepared for the management team.

All teams are subject to robust project management disciplines, including defining objectives consistent with the aims of the Administration, developing resource plans and providing KPIs on progress. This function is central to the optimal management of the case as a core control and monitoring mechanism.

Each of the teams has either weekly or bi-weekly progress review meetings with the individual Administrator responsible for the relevant activities, to review progress, consider objectives and priorities and examine resourcing.

In addition, the COOs conduct a series of meetings each week to review progress of the middle and back office teams. They track progress against defined objectives and redeploy resources as necessary.

Creditors' Committee

Your Committee was elected at a meeting of the creditors on 14 November 2008 and the original members were:

- Lehman Brothers Holdings, Inc ("LBHI");
- Ramius Credit Opportunities Master Fund Limited;
- GLG European Long/Short Fund;
- Legal and General Pensions Limited; and
- Oceanwood Global Opportunities Master Fund.

Since LBIE filed its claims against LBHI, LBHI has resigned from the Committee (whilst not at this stage accepting LBIE's claims) and has been replaced by Lehman Commercial Paper, Inc.

Members of the Committee are unremunerated. Other than a refund of out of pocket expenses, they receive no other payments from LBIE.

Function and role of the Committee

The statutory function of the Committee is to assist the administrator in discharging his functions set out in the IA86.

The responsibility of the Committee is to represent the interests of unsecured creditors as a whole, not just the interests of its individual members.

Committee meetings

The Administrators communicate with the Committee regularly either, in person, by conference call or email. Since our April 2009 report to creditors, there have been:

- Two further formal, full-day meetings of the Committee in London;
- One detailed written update to Committee members on LBIE's progress to 26 June 2009; and
- Four conference calls to address specific issues.

The Committee members have continued to commit substantial time to matters arising in the Administration. The Administrators wish to express their gratitude to members for their input during the six month period.

In addition, members of the Committee are part of the Scheme Working Group ("SWG"). During the six month period there have been four full day meetings with the SWG and numerous extensive conference calls. The role of the SWG has been critical in the formulation of the Client Asset Scheme and its alternatives.

Financial position

Introduction

This report has been designed to give creditors further information concerning assets and liabilities being managed and the priorities and activities of the Administrators' staff, Lehman personnel and professional advisors.

Whilst significant data is included in this report, creditors are cautioned against estimating the likely level of recoveries as material uncertainties exist regarding, inter alia, the level of realisations and eventual level of admitted claims. The Administrators are aspiring to provide some indication of the potential range of dividend levels in the next report to creditors in six months time.

This report is structured to provide creditors with an understanding of both the unsecured estate and Trust estate in addition to further information regarding front, middle and back office processes.

On the following page, a summary of LBIE's assets and liabilities is presented insofar as they relate to the unsecured estate. This is distinct from proprietary assets and claims, which are detailed in Section 5: Trust Property.

Creditors are advised that if surplus segregated assets are available (i.e. over and above Trust asset claims) this surplus will be available to unsecured creditors. If a shortfall in relation to Trust assets exists, Trust clients may, in certain circumstances, participate in the unsecured estate. The Administrators currently believe that a significant number of counterparties with Trust assets may have claims in the unsecured estate. These arise predominantly from claims under various financial contracts, rather than from asset shortfalls.

Selected financial data

Set out below is a summary of selected data contained in the SoA as at 15 September 2008.

Certain revisions to the SoA figures have been made by the responsible Lehman staff reflecting information now available. The 'Revised SoA' is not an indication of the estimated realisable value of assets or liabilities.

Further information in respect to each of LBIE's unsecured estate and Trust estate categories and other areas is discussed in more detail in Sections 4 and Section 5.

For the avoidance of any doubt, the financial information contained within this report is based on LBIE records and has not been subject to an audit.

General unsecured estate

Assets

No. of counterparties/ stock lines	Asset type	Report Section	Filed SoA (\$bn)	Revised SoA (\$bn)	Cash realised to 14 Sept 2009 (\$bn)
1,547	Counterparty receivables	4.1	21.9	21.9	6.5
90	Intercompany receivables	4.2	9.7	9.6	–
5,582	House Depot Securities	4.5	15.9	15.9	2.5
n/a	Other	Appendix A	–	–	0.9

Liabilities

No. of counterparties/ stock lines	Liability type	Report Section	Filed SoA (\$bn)	Revised SoA (\$bn)
2,794	Counterparty payables	4.1	19.3	10.5
1,287	Prime Brokerage creditors	5.1	–	9.1
119	Intercompany payables	4.2	11.1	11.3
25	Other*	n/a	1.8	2.4

* No amounts were included in payables to reflect claims received to date or possible shortfalls of securities to clients in the Trust estate

Trust estate**

No. of counterparties/ stock lines	Asset type	Report Section	Filed SoA*** (\$bn)	Revised SoA (\$bn)	Realised/Returned to 14 Sept 2009 (\$bn)
3,080	Segregated Depot Securities	5.1	–	35.2	(13.7)
15	Client Money	5.1	–	2.1	(0.9)

** For the purpose of this report we have assumed that all client assets and money will be recovered and returned to clients and that they have no residual shortfall claims

*** Items relating to segregated depot securities and client money were not included in the SoA as they are not assets of the Company

Section 4

General unsecured estate

Introduction

In this section we detail the progress of the House estate.

The House estate comprises all dealings and asset realisations of the general unsecured estate for the benefit of unsecured creditors of LBIE. This section is set out as follows:

- **Section 4.1 – Counterparties.** Coordinates dealings with c.4,300 counterparties who are debtors and/or creditors to LBIE.
- **Section 4.2 – Intercompany.** Manages dealings with Affiliates on an operational basis and manages an extensive programme of filing claims in the various insolvencies.
- **Section 4.3 – Overseas branches.** Manages the available assets from overseas branches and coordinate the close and wind up of the branches in 13 jurisdictions.
- **Section 4.4 – Depot team.** Engages in reconciliation and recovery of securities for LBIE. The team also supports our dealings with Affiliates in relation to securities where title is contested.
- **Section 4.5 – Proposed mechanism for future creditors' distribution.** Sets out the proposed future distribution strategy which will be given further consideration in the coming months.

Section 4.1 Counterparties

Overview

The Counterparties team coordinates the interaction with all LBIE counterparties other than Intercompany and Trust teams.

Its objective is to recover amounts from those with sums payable to LBIE and to agree claims with those to whom LBIE is indebted.

The activity of the Counterparties team is sub-divided into a number of specific areas as follows:

- **Street** – primarily manages dealings with counterparties with either multi-product relationships or derivative-only relationships;
- **Financing** – manages the interaction with counterparties with whom LBIE has a financing-only relationship (repos/reverse repos, stock loans/stock borrows);
- **Prime Brokerage** – balances of assets from Prime Services clients who are debtors to the LBIE estate;
- **Live OTC derivatives** – negotiation and termination of live OTC derivative contracts with counterparties who are debtors to the estate; and
- **Derivative Exchanges** – balances on of cash from clearing houses and clearing brokers.

There are over 4,300 counterparties within the scope of the Counterparties activity, comprising c.1,500 debtors and c.2,800 creditors.

Assets

According to LBIE's records at 15 September 2008, of the total net value of counterparty debtor relationships, \$8.4bn relates to entities which have multi-product relationships with LBIE and \$12.6bn relates to single product relationships (including \$3.1bn in financing, \$3.4bn in derivatives, \$3.0bn in live OTC derivatives, and \$3.1bn exchange traded derivatives).

Counterparty	No. of cptys	Revised SoA (\$bn)	Cash received to 14 September (\$bn)
Street & Financing	1,359	13.8	2.9
Prime Brokerage	105	1.1	0.3
Live OTC Derivatives	68	3.0	1.5
Derivative Exchanges	15	3.1	1.8
Total	1,547	21.0*	6.5

* In addition to the analysis above, LBIE has further receivables of \$0.9bn from entities that are associated with clients of the Trust estate.

Liabilities

Type	No. of Cptys	Revised SoA (\$bn)
Street & Financing	2,699	(9.8)
Prime Brokerage	80	(0.5)
Live OTC Derivatives	9	–
Derivative Exchanges	6	(0.2)
Total	2,794	(10.5)

In addition to the \$10.5bn creditor balance reflected in the Company's records as at 15 September 2008, the Administrators have received notification of a further \$14.6bn of claims.

The validity of counterparty claims has still to be determined.

STREET, PRIME BROKERAGE AND LIVE OTC DERIVATIVES

Focus

The strategy in these areas is twofold:

1. Realisation of cash from counterparties; and
2. Conclusion of settlement agreements with counterparties.

In line with this, resources have been deployed across a number of areas:

- Settlement of the top 20 complex (Tranche A) counterparty groups;
- Progression of the next 100 complex counterparty groups (Tranche B);
- Settlement of net receivable Prime Brokerage counterparties;
- Collection of cash where the counterparty valuation statement indicates an amount due to the estate; and
- Final settlement for simple cases where there are no material valuation breaks.

The primary focus continues to be on the largest net debtors of LBIE's estate, which are, in general, those with multi-product relationships.

Alongside this, specialist groups within the Street team are actively pursuing, liaising with and attempting to settle as many counterparties with net receivables balances as possible. This activity covers a significant proportion of single product relationships.

Key achievements

Since 15 March 2009, the Street team has made significant progress against its two objectives of asset realisation and counterparty settlements.

As at 14 September 2009, cumulative cash collections amounted to \$4.7bn, of which \$2.2bn was collected in the latest six month period.

Of the Street debtor population, 85% (by value from the SoA) has either already been settled, or is the subject of active and ongoing negotiations.

To date, the Street team has concluded settlement agreements with c.40 entities.

Other achievements include:

- Completion of a settlement agreement with LBIE's second largest counterparty, which covered more than 1,000 derivatives, financing and failed transactions (\$0.5bn realised);
- Successful negotiation of the majority of the remaining live derivative counterparties, including some who had previously asserted that they were not required to continue to perform their obligation under the relevant agreements with LBIE. As at 14 September 2009, 95% of OTC derivative transactions (c.80,000 in number) had been terminated;
- Novation of the largest live derivative position of the estate (\$0.5bn realised);
- We are in the final stages of negotiations with a further 3 Tranche A groups (representing 20 legal entities), 2 further complex counterparty groups and 20 simple counterparties, illustrating the momentum gained by streamlining the closure process and grouping counterparties under specific projects;
- Close-out of the portable alpha swaps book, recovering over \$200m and releasing over \$1.0bn of collateral to counterparties;
- Development of LBIE's own valuation capability through internal and third party providers. Valuations have now been completed for 85% of the total Street population of derivative and financing trades;
- Underlying "Principal" relationships have now been identified for the majority of financing "Agency" relationships. A dedicated resource is focusing on identification, reconciliation and settlement of such transactions; and

- Full implementation and embedding of credit risk management disciplines and the active pursuit of accounts at risk.

Issues and challenges

The challenges facing the team remain numerous and significant and include:

- Complexity of counterparty balances, comprising multi-entity and multi-product challenges;
- Complex nature of the counterparties relationships, including multiple agreements, cross-entity netting arrangements, uncertainties around treatment of agency/principal relationships and diversity of the underlying derivative contracts;
- The volume of counterparties;
- Valuation capacity especially for the most exotic positions;
- Timely availability of information and variable quality of data provided by counterparties, particularly valuation statements;
- Mechanism for dealing with settlement of counterparties with an interest in Client Assets and Client Money; and
- The ability to terminate live derivative, financing and prime broking agreements. This is likely to result in future litigation.

Over the next six months, the team is focusing on the following key areas:

- Settlement with further complex counterparty groups;
- Commencement of negotiations with more of LBIE's complex counterparties;
- Material progression on all other counterparty sub-groups; and
- Commencement of a project to agree creditor claims.

Clearly, the provision of information by counterparties remains a significant factor in the overall effectiveness of the Counterparties team. The team will continue to pursue counterparties for such information on an ongoing basis. Similarly, the team continue to use various means to pursue the remaining counterparties who have declined or resisted approaches to terminate live OTC contracts.

FINANCING

Overview

The Financing team is responsible for managing the process of recovering funds and agreeing claims relating to excess collateral posted with counterparties in respect of LBIE's extensive financing activities.

Financing transactions include:

- Repos and Reverse Repos;
- Stock Loans and Borrowings; and
- Buy/Sell Backs and Sell/Buy Backs.

The typical market contracts are OSLA, GMSLA, GMRA, GESLA and MEFISLA, in addition to country specific French and German law agreements.

The key processes for settling financing positions are well embedded, with the priority and focus to date being on realising the excess collateral from third parties whose sole relationship with LBIE was in relation to financing transactions.

Key achievements

- Counterparty contact programme continues to be successful:
 - Terminations received for 97% of third party debtor balances by value, whether as part of single or multi-product relationships; and
 - Close-out statements received for \$6.5bn (84%) of third party debtor balances.
- Robust trade reconciliation and revaluation processes are well established; over \$3.0bn of the portfolio has been revalued and these valuations are a key component of the settlement negotiations with counterparties.
- Significant progress has been made in analysing the impact of agency relationships. In total, 53 agency relationships and 1,164 underlying principals have been identified. To date agency positions have been allocated to 720 of those principals (62%).

Progress

Over the past six months, the key operational processes implemented have continued to be refined to improve efficiency, scalability and productivity:

- A valuation process for corporate actions, dividends and coupons has been established and embedded within the reconciliation process;
- Design and production of detailed management information to support the formalised counterparty communication programme, to ensure correspondence is sent at timely intervals;
- Established a contact programme to manage the close-out process for financing creditors; and
- Further enhanced robust trade revaluation processes to include a prioritisation process, activity framework, audit trail and negotiation guidance.

Issues and challenges

The Financing team continues to work with the major institutions for access to post 12 September 2008 settlement and cash flow data for Asia and the US, to ensure completeness and accuracy of our internal records:

- LBIE continues to be reliant on the quality and detail of close-out statements so that reconciliation to underlying principals can be completed and receivables received; and
- The team continues to adopt a variety of influencing strategies for outstanding statements such as regulator lobbying, industry body liaison and direct contact with underlying principals (under agency trades).

Priorities for the next six months will continue to be on cash realisation and position settlement, specifically:

- Active pursuit of the remaining close-out statements for third party debtors;
- Completion of the allocation and reconciliation of agency transactions to underlying principals to recover receivables;
- Completion of the majority of trade and valuation reconciliations for third parties and challenging counterparty close-out statements;
- Continued to pursue settlement and negotiation of debtor claims; and
- Pursue the remaining close-out statements for overall net creditors.

DERIVATIVE EXCHANGES

Overview

The Derivative Exchanges team has made significant progress in recovering funds from clearing houses and clearing brokers following their liquidation of LBIE house positions and the transfer of client positions to alternative brokers, as well as determining client and Affiliate entitlements. Over the last six months, the focus has been on:

- Validation of the house and client positions as at the point of Administration;
- Ongoing reconciliation of the cash received or paid to terminated trades; and
- Continue to establish the amount of cash owed to or by each client and Affiliate.

Key achievements

- To date \$1.8bn has been realised. There are still further amounts to recover from counterparties, however some funds remained trapped in a Taiwan exchange account, where recovery is unlikely in the short term due to regulatory obstacles.
- Client Money held by counterparties and now repatriated stands at \$77m with an additional \$15m still to collect. However, these funds are also in Taiwan and subject to the same regulatory barriers.
- Claims have been filed for a gross amount of \$2.1bn against Affiliates (LBI \$1.9bn and other Affiliates \$0.2bn) of which \$120m pertains to Client Money in relation to exchange margin placed with Affiliates.

Progress

Recovery of funds

- Post Administration, exchange positions in Europe and the US were largely liquidated or transferred to other brokers by the end of September 2008 and the resulting over- collateralised margin amount balances have since been recovered by LBIE.
- Positions remaining open were in the Far East (Taiwan, Korea, and Hong Kong) which have now expired. The team are working with the local regulatory authorities to address the conditions associated with returning the remaining funds to LBIE. At this stage we consider that the return of these funds is unlikely to occur in the short to medium term.

Client Entitlements

- The task of determining client cash entitlements following liquidation and transfer of positions is complete. All transactions have been reconciled to exchange data.
- Realised gains and losses have been calculated for client positions. However, the April 2009 *Global Trader* ruling resulted in the need to revisit the calculations to reflect a differing treatment in relation to pre and post-Administration gains and losses.
- The determination of client entitlements is expected to be determined as part of the wider client money directions process referred to in Section 5.2.

Cash Transfer Analysis

- Cash was scheduled to be transferred to and from LBIE clients on 15 September 2008. Many of these cash transfers did not settle and it has been necessary to eliminate these failed payments. This involved reviewing over 2,500 potential transfers and has led to numerous adjustments to client accounts.

Issues and challenges

Work is nearing completion in this area – over the next three months it is anticipated that activities will centre on the following:

- The recovery of amounts held by clearing houses in Europe. A further \$61m should be capable of being recovered; and
- Final information on the cost of close-out from certain exchanges, particularly in respect of positions that were auctioned, should be forthcoming which allows determination of final entitlements for House and Affiliate positions.

Priorities for the next three months will focus on:

- Continuing to progress repatriation of outstanding funds;
- Determining Affiliate entitlements;
- Pursuing clearing houses for details of auctioned positions; and
- Completing reconciliation of cash received from exchanges to the cash entitlement movements for all positions.

AGENCY

Overview

The Agency team deals with various roles as security agent, facility agent, calculation agent and balancing agent for external counterparties.

These roles arose where a Lehman entity was involved in the establishment of structured credit arrangements and leveraged finance structures.

In the April 2009 progress report, we indicated that continuing to perform roles in any agency capacity under the numerous structures would divert significant resources and could also result in the LBIE estate being exposed to performance risk issues.

During early 2009, the Agency team established and implemented a comprehensive policy to deal with LBIE's agency issues.

Issues and challenges

We understand that LBIE was a security agent in over 100 structures that involve a large number of individual pledges over different types of securities, including real estate, share certificates, construction contracts, bank accounts etc. To give an insight of the magnitude of security held, in one structure alone, there are some 5,200 individual real estate properties in eleven different legal jurisdictions, where LBIE is security agent and is required to effect transfer of the security.

Our established resignation process requires the majority lenders to request LBIE to resign from its role as Agent. In many cases, these structures involve multiple lenders, the majority of whom would have to be party to the resignation deed. Due to the number of parties on the resignation documents, the process of negotiating a settlement can be time consuming.

Focus

The focus of the Agency team is to work with the counterparties involved in the structures, to agree a prioritisation for resignation and to resign as security agent in a systematic and controlled manner.

Progress to date

The accomplishments to date include:

- The procedures and principles for the resignation of LBIE as a security agent (including a cost contribution policy) have been widely communicated to affected parties, including other Lehman entities, the servicers and foreign legal counsel where securities are registered or maintained;

- The team has completed a significant number of resignations and consents to date and is experienced in dealing with a number of transactions simultaneously;
- To date the team has resigned from 14 agent roles with a facility total of some \$7.0bn and has commenced the resignation process for a further 18 security agent roles;
- LBIE has performed limited agency functions, as an interim measure, where an undertaking has been given to facilitate LBIE's resignation and appropriate indemnities have been received by LBIE. Such instances have led to the execution of various documents as agent, including partial and full security releases, transfer requests, payment redirection arrangements, lease consents (one comprising 77 consents), facility agreement amendments and draw-down consents;
- The resignations and partial releases to date have involved security held in 12 different jurisdictions;
- Discussions are at an advanced stage to finalise a mechanism for the release of properties in a portfolio with approximately 60,000 units in Germany;
- Negotiations to date have led to discussions being held with over 30 different legal firms across Europe, enabling in excess of 40 different lenders to appoint a successor agent or receive partial repayment as a result of a partial release of security; and
- The team has provided 73 responses to counterparties via the Query Management System ("QMS") on LBIE's position concerning the different agency roles.

Summary

The resignation process has been formalised and the agency team continues to receive a large volume of requests from various parties involved in these structures who are unable to progress a wide range of basic actions such as refinancing, making repayments, restructuring the vehicles or selling/leasing secured properties, without the involvement of the security agent.

Interim measures have been put in place to deal with urgent releases and consents while the resignation from these structures is being finalised.

A number of resignations have been executed to date and several resignation requests are currently in the negotiation phase.

Section 4.2 Intercompany

Overview

The global nature of the Lehman business has resulted in highly integrated trading and non-trading relationships across the Lehman Group. There are over 200 debtor and creditor intercompany balances with LBIE and the rest of the Lehman Group representing \$9.7bn of debtors and \$11.1bn creditors at their 12 September 2008 book values.

A dedicated team has been established to manage dealings with Lehman Affiliates to recognise their scale and complexity. The role of this team has been to assist the Administrator to lodge claims in over 8 jurisdictions totalling some \$118bn and to submit updated claims to reflect market movements on open positions. Further guarantee claims of c.\$90bn will be lodged during October 2009, which will bring the aggregate value of claims filed to c.\$208bn.

LBIE has maximised its claims against Affiliates – it is probable that admitted claims will be lower than amounts claimed.

It is likely that eventually, the Affiliates will be in a position to pay a dividend on claims made by LBIE and while we have no visibility on that to date, our activities are focused on ensuring that LBIE's claims are optimised and the relevant back-up is identified and preserved for subsequent validation of LBIE's various claims.

Key achievements

Key highlights for the intercompany team include:

- Claims filed against LBHI controlled entities totalling \$38.4bn. Significant work has been undertaken on guarantee claims against LBHI, which will be filed by the bar date of 22 October 2009;
- In addition, gross claims of some \$80bn have been submitted against other non-LBHI controlled companies, including LBI (US), LBJ and Lehman Brothers Finance, SA ("LBF") (Switzerland);
- Intercompany financing and derivatives balances for the major Affiliate relationships have been revalued to the contract termination date – LBSF (fixed income derivatives entity), LB Lux (Stock Loan and Borrow entity) and LBCC (FX Entity);

- The legal and financial analysis of a number of complex intercompany agreements has been substantially progressed, including:
 - The evaluation of a series of intercompany derivatives back-to-back ("BTB") side letters, providing market hedges to LBIE; and
 - Making an originating application to the UK High Court for a determination as to the title of certain assets held in the LBIE depots at 15 September 2008.
- A framework for the agreement of intercompany balances has been developed by LBIE and shared with all major Affiliates.

Progress

The intercompany team has met the various deadlines driven by the claim bar dates:

- Filing 24 direct claims totalling \$38.4bn for the LBHI bar date;
- In addition claims have been filed against LBI \$12.1bn, LB Lux \$6.0bn and a revised claim submitted against Bankhaus \$0.3bn;
- Guarantee claims are currently estimated as c.\$90bn. These will be filed imminently, before the LBHI guarantee bar date; and
- Secured membership on creditors' committees for major intercompany relationships including LBF in Switzerland and Lehman Brothers Commercial Corporation Asia Limited ("LBCCA") in Hong Kong.

Progression of intercompany claims

As previously reported, an approach, referred to as a Memorandum of Understanding ("MoU"); which sets out the guiding principles that LBIE will use to progress and agree intercompany balances with Affiliates, was outlined for Affiliates. It enables:

- Efficient cooperation between officeholders;
- Effective use of the limited resources of Affiliates reflecting the commercial and practical realities and limitations that exist;
- Tailoring to the particular nature of the activities between LBIE and the respective Affiliates; and
- Consistency with UK insolvency law and an ability to be adapted to reflect the applicable law in the jurisdiction of the Affiliates.

Supplementing the principles in the MoU are the practical steps to negotiating the components of the balances between Affiliates. This includes:

- The exchange of information on the legal agreements and transaction data;
- Discussions to agree application of the former;
- Review and comparison of trade and position records; and
- Revaluation which will allow LBIE and the Affiliates to agree the overall balance and not reopen discussions and/or challenge the balance agreed at a later date.

LBIE circulated its MoU to all major Affiliates between April and June 2009 and hosted a meeting on 16 July 2009, attended by representatives of 22 Affiliates covering:

- Background to intercompany relationships (IT systems and typical business flows);
- Overview of the global accounting process conducted jointly by the major Affiliates' officeholders shortly after insolvency (known as the "Global Close"); and
- MoU principles and a detailed walkthrough of practical steps for agreement of components of intercompany balances.

The Intercompany team has continued the tailoring of this practical approach with the major Affiliates.

Ownership of assets held in LBIE depots

Certain assets held in LBIE's House custodian accounts have been subject to claims from Affiliates, that they own these assets.

The legal issues governing these arrangements and the operational processes employed to manage the assets pre-Administration are complex and differ between the various parties. Whilst the Administrators consider that LBIE has title to many of these assets, they have sought the direction of the UK High Court to consider the issues and pass judgement on interpretation of the various arrangements.

Extensive work is ongoing with the Affiliates to provide them with details of the manner in which the assets were held and managed and to agree a selection criteria for sampling to ensure the Court considers representative asset holdings.

Ahead of the final Court determination of ownership, LBIE has implemented an interim management arrangement to actively risk manage and/or liquidate securities in collaboration with selected Affiliates.

Intercompany derivatives – BTB arrangements

- Progress continues on the analysis of the impact of the BTB side letters LBIE has in place with 12 Affiliates. These letters cover the majority of the derivative exposures that LBIE has with Street counterparties, and provide protection to LBIE in the event of a dispute or credit event with the counterparty.
- There are many thousands of positions with Affiliates in question with a mark-to-market value estimated to exceed \$30bn.
- Affected Affiliates have been briefed on LBIE's interpretation of the BTB letters and their impact on the valuation of intercompany derivative positions.
- A full reconciliation and valuation exercise is underway to determine the precise quantification of the BTB letters on the overall intercompany indebtedness.
- Given the magnitude of this issue, it is likely to require significant ongoing activity.

Focus

The main areas of focus in the short-term are:

- Prepare evidence for UK Court directions on the ownership of certain securities held in LBIE depots but subject to claims from Affiliates in Switzerland, Hong Kong and the US. Procedural hearings scheduled to commence on 19 October 2009;
- Prepare and file support for the Guarantee claims for the LBHI bar date on 22 October 2009. Provide further support for claims in relation to Lehman Issued Securities by November 2009;
- Complete the reconciliation and valuation of derivative trades subject to the BTB side letters;
- Complete detailed investigations into selected intercompany transactions identified in the period immediately prior to Administration; and
- Roll out the principles developed in the MoU to accelerate the agreement of balances with Affiliates.

Issues and challenges

The key challenges facing the Intercompany team and the approach adopted to overcome these matters are as follows:

- Significant volume and complexity of the transactions underlying the intercompany balances – LBIE has over 70,000 derivative and secured financing trades embedded within its remaining intercompany balances. In certain cases, these derivative and financing transactions relate to highly complex and/or illiquid products that require highly specialised valuation expertise, sophisticated pricing models and extensive market data;
- The Administrators have leveraged the product valuation expertise and infrastructure developed for the negotiation and resolution of street-side relationships, to provide a support for this activity. The Administrators have also leveraged the effort required to meet the obligations of filing claims in compliance with overseas bar dates to drive an efficient process of completing the majority of these valuations;
- Impaired creditworthiness of all intercompany receivables – All the material Affiliates with amounts payable to LBIE are in insolvency proceedings. Recoveries from intercompany claims are dependent on an extended chain of intercompany claims;
- At this stage, it is unrealistic to estimate realisations from these sources as many estates publish little, if any, information regarding their financial position;
- The impact of terminations from clients and market counterparties together with the significant deterioration in the market values of certain asset classes in the weeks directly after Administration has substantially eroded the likely recoverability of intercompany receivables. The approach to mitigate has been to:
 - Understand and optimise LBIE's rights as creditors in other insolvency jurisdictions; and
 - Selectively offer to provide infrastructure assistance to those Affiliates in whose estates LBIE has significant economic interests.
- Limited infrastructure and operational capability of key Affiliates – In many cases Affiliates have retained limited or no infrastructure. This has substantially hampered their ability to engage with LBIE in the speedy reconciliation and validation of intercompany balances; and
- Intercompany risk management arrangements – there are a number of pre-Administration intercompany risk management arrangements that were in place to protect LBIE. These agreements are complex and have a significant financial impact. They cover a range of matters including:
 - BTB intercompany hedges for counterparty street-side derivative exposures;
 - Secured intercompany financing arrangements supporting shared settlement arrangements and the ownership of securities retained in LBIE depots; and
 - Holding company guarantees.
- These arrangements are subject to detailed scrutiny and may eventually be subject to judicial review. A significant investment has been made in the preparation of detailed forensic and legal analysis of these matters, documenting and evaluating these arrangements in order to protect the LBIE position.

Section 4.3 Overseas Branches

Overview

LBIE had a presence in 13 overseas branches across Europe, Middle East and Asia.

The various teams have liaised with local legal regulators to address multiple legal issues during the coordination of a formal closure of LBIE's overseas branches.

With the exception of Korea, relatively modest future realisations are expected to be recovered from LBIE's overseas branches.

Key achievements

- c.\$150m has been realised and repatriated to the UK from the overseas branches.
- Over 67% of branch personnel have transferred to Nomura.
- Operations in all branches have ceased, with each branch moving through a formal closure process, which in most cases is being supervised by local regulators and will be subject to local laws and processes.
- An exit plan has been developed and largely implemented for the Korean branch. Over \$100m could be recovered in due course once the branch has been formally liquidated.

Progress

- Further recovery of \$2m from bank accounts in France, the recovery of rental deposits in Kuwait and Italy and from the sale of assets in Germany and Switzerland.
- Identified assets in UAE, Spain, Netherlands and Italy and currently negotiating the sale of these assets to Nomura.
- Closure of the branches in Sweden, Switzerland, Qatar, Kuwait and Israel. Continue to manage the exit from the remaining branches. Further value is likely to be recovered from Korea, Netherlands, Italy, Switzerland, France and Germany.
- The majority of the remaining employees have been made redundant and there are currently 4 employees remaining, 2 in Italy and 2 in Korea to assist with the wind down of these branches.

Issues and challenges

The key challenges for the next 6 months are the recovery of funds from Korea and Zurich, dealing with employee litigation, particularly in France and Italy and the completion and formal closure of the remaining branches. These tasks include dealing with various issues as detailed below.

Korea

The branch continues to be under an order of suspension of business and emergency measures, which was initially issued on 16 September 2008, by the Korean regulators. This order has been extended until such time as the branch is formally closed and an application to the Korean Courts to move the branch into a voluntary liquidation phase is submitted and approved.

Since the last progress report, the team has continued to work with the Korean regulators and the branch management in Seoul on the following:

- Identify and realise all locally held assets;
- Agree the claims of creditors and work with local management to settle those claims with locally held funds. At the time of writing, settlements have been agreed with the five remaining known third-party creditors with the execution process being finalised;
- An application which will allow the branch to be formally closed has been approved by the Korean regulators and will be implemented when the branch moves into voluntary liquidation;
- A tax audit which covered the five years through to 31 March 2009 has concluded and been agreed with the Korean tax authorities. The assessment resulted in an additional net tax payment of c.\$21m. An additional assessment (c.\$14m) is currently being appealed; and

Current estimates indicate that there will be a remittance back to LBIE's UK estate of over \$100m on the conclusion of the liquidation phase. Remaining tasks include:

- Agreeing a strategy to manage amounts identified as Client Money with the Korean regulators;
- Settlement execution with the five remaining known creditors;

- Disposing of remaining securities, once House title has been confirmed, including addressing competing Affiliates claims to the inventory;
- Overseeing a potential additional tax audit; and
- Negotiating and settling with any other remaining market counterparties.

The voluntary liquidation phase is expected to commence during October/November 2009 and is likely to continue into 2010.

France

Approximately \$81m has been recovered from France to date. A further \$13m could be recovered. This is subject to the solvency of another Lehman entity and the recovery of VAT payments.

Switzerland

\$45m of LBIE's funds continue to be frozen in Switzerland by the local Zurich regulator. This will be retained pending resolution of the local bankruptcy proceeding in Zurich, including settling employee claims.

Italy

Several former employees of the Milan branch have applied to the Milan court to commence secondary proceedings in Italy. The most appropriate option in respect of this action is being considered and all necessary steps are being taken to protect LBIE's position in Italy.

Branch closure

There are a number of issues remaining to close the branches, as detailed below:

- Realising value for assets held in Spain, UAE, Italy and Netherlands that were not sold to Nomura under the Business Sale Agreement;
- Completing the transfer of leases and recovering the return of deposits from landlords for Italy, UAE and Qatar;
- Completing tax returns. There could be repayments to LBIE in terms of corporate tax refunds and/or VAT refunds from France, Germany, Netherlands and Italy. This will be quantified once the exercise is complete and the local tax authorities have assessed the returns;
- Appropriately defending employee litigation in Italy, Germany and France;
- Recovering outstanding operating costs from Nomura; and
- Formally closing the overseas branches and coordinating the Financial Services Authority ("FSA") and local regulators in each jurisdiction for the remaining branches.

Section 4.4 House depot securities

Overview

The focus of the House team is to maximise the value to creditors through an orderly disposal of House securities.

This is being achieved by:

- A strategy to limit market risk whilst realising the best value reasonably possible;
- Identification of quality assets to be transferred to the investment portfolio to be held in accordance with investment policies; and
- Identification of certain assets, typically structured fixed income securities, which are transferred to our hold strategy portfolio until either maturity or until the return of greater market liquidity.

Financial summary

At 15 September 2008, the SoA recorded \$15.9bn in House securities. At 14 September 2009, the position of the House depot is as follows:

	SoA (\$bn)
Value at 15 September 2008	15.9
Exchange collateral received	0.5
Disposals and transfers	(2.7)
Held in segregated pool	(2.9)
Market Events	(2.6)
Mark-to-market revision	(3.1)
In depots at 14 September 2009	5.1

Assets held in the segregated pool should be recovered at the then market value once the related client positions are reconciled, agreed and related assets returned (see Section 5.1).

Market events include losses on assets liquidated by sub-custodians primarily in September 2008, to cover their open commitments. We have reconciled this on a line-by-line basis for each of the depots (see Market Events overleaf).

The mark-to-market revision reflects the write down of residual securities to market, based on currently available pricing. Highly illiquid positions are marked at zero.

Key achievements

To date the team has recovered the following:

- \$1.6bn has been realised for the estate from assets being sold;
- \$0.8bn has been monetised from redemptions; and
- \$0.1bn has been received in the form of income on the portfolio.

In addition to the above, \$0.2bn of bonds have been transferred to the Treasury investment portfolio.

Within the residual \$5.1bn of House securities, the team has identified and categorised the location of the assets as follows:

	SoA (\$bn)
Available for sale	0.4
Held subject to title dispute	0.6
Held by Affiliates (LBI, LBJ)	2.0
Other – closed custodians	2.1
In depots at 14 September 2009	5.1

Issues and challenges

Asset realisation is dependant upon continued progress in removing the constraints around the release of frozen assets held at third party and Affiliate custodians is expected to take some time to resolve.

There are c.2,100 lines of stock valued at \$1.9bn on 15 September 2009 held in depots outside our control. The majority of these positions are held by three North American custodians. These custodians have very wide dealings with the Lehman Group and are holding assets while the position is agreed.

The assets held by LBI form part of LBIE's claim against LBI. We currently assess our prospects of recovery as uncertain due to the manner in which the US SIPA liquidation process classifies intercompany claims.

Market events

Market events – Post 07.56am on 15 September 2008, key market events occurred which materially impacted the securities inventory.

These can be categorised into three separate events as follows:

- **Settlements** – Matched market trades pre 15 September 2008, which the legacy Custodians settled with the market on 15 September 2008;
- **Buy-ins** – The legacy custodians replaced auto-bond borrows, through purchasing additional securities to meet any settlement obligations or market shorts; and
- **Involuntary liquidations** – The involuntary sale of collateral in the House accounts by the custodians to extinguish settlement liability.

Through performing the reconciliations and through communication with the legacy LBIE custodians team has received information to support the booking of these events.

Reconciliations

Significant progress has been made in the identification and resolution of stock and cash breaks:

- Less than 40 cash breaks remaining for the European and Asian LBIE cash accounts;
- Less than 500 cash breaks remaining relating to the North American cash accounts;
- All known historical LBIE stock record breaks reconciled and accounted;
- Ageing KPI of any new breaks on current inventory achieved; and
- In addition an ISIN level reconciliation of the real world depots as at 12 September 2008 to the SoA has been performed. This reconciliation is 93% complete.

Transaction processing

Asset migrations, front office executions, client returns and mandatory corporate actions have resulted in the processing of 2,666 events from 1,333 market sell transactions since the last report.

Securities account closure

As at 12 September 2008, LBIE operated over 40 custodian relationships through 80 markets operating 739 real world securities accounts. Through successfully

migrating significant amounts of securities to the new global custodian, the stream has been able to close 183 securities accounts, with a further 431 having been instructed for closure.

Physicals

The team has made significant progress in reconciling internal records of physically held assets using information received from the Registrars and those of private company investments. Replacement certificates have been requested and re-registrations have been authorised. Records have been updated where it has been established that corporate events have impacted the position.

Product static/market data and Integrity

Due to the separation of certain key systems significant loss of static data occurred. To date c.3,000 product static related items have been raised for investigation, with the team achieving 100% completion of work these, resulting in a substantial cleansing of the securities static data.

Frozen assets

The release of c.2,100 lines of stock held at the remaining legacy LBIE custodian will take some time to resolve.

The majority of this exposure resides within three North American custodians. The population can be further split into sub categories:

- Securities held at LBIE custodians which are closed due to either litigation or local regulatory actions; and
- Securities held at LBIE custodians where the custodian is additionally a counterparty of LBIE and has a multi-product, entity relationship with them.

We have recently secured the release of a proportion of these securities and will be establishing ownership over coming months.

Systems

The Depot Securities team's core control and record keeping is currently utilising the Lehman legacy mainframe application. This application is now owned by Barclays Capital, Inc ("BarCap"), following the sale of the Lehman North American operations of LBI. There is an additional technology resource dependency on Nomura. The IT team is developing ambitious plans to reduce LBIE's reliance on these third party information technology systems.

Section 4.5 Proposed mechanism for future creditors distribution

Overview

During the period since the April 2009 progress report, the Administrators have been considering how to distribute the proceeds of House realisations to unsecured creditors. It is our intention to materially progress the framework for distributing realisations to creditors over coming months.

As identified earlier, the agreement of creditors claims has not been a priority during the first 12 months of the Administration as focus and resources have been deployed in realising House assets and addressing third party title claims. Many creditors have submitted claims (including the valuation statements), and have completed Statement of Claim forms and filed claims through the Client Information and Claims website at <https://dm.pwc.com/LBIEClient>.

If creditors have already submitted a claim, no further action needs to be taken at this stage. Other creditors are invited to submit their claims and provide a detailed valuation of their position via the website above. The website provides detailed guidance to creditors and counterparties on how to compile their claims.

Over coming months, the activity of the Counterparties team (see Section 4.1) will increasingly include the agreement in principle of creditors' claims, allowing them to be admitted in due course for distribution purposes.

The Administrators' current view is that a scheme of arrangement is likely to be the most efficient and suitable mechanism to distribute funds to unsecured creditors.

Potential Unsecured Creditor Scheme of Arrangement ("Unsecured Scheme") under the Companies Act 2006

In broad terms, a scheme is a contractual compromise between LBIE and its affected creditors. The objective of such a scheme would be, *inter alia*, to:

- Define a bar date, after which creditors may be excluded from proving claims in the estate;
- Define a series of rules to govern the valuation and admission of claims;
- Set out a dispute resolution mechanism; and
- Establish a governance framework, including a Scheme Creditors' Committee.

An Unsecured Scheme would be beneficial for unsecured creditors as it achieves finality of claims and provides definite population of unsecured creditors, further, it would enable the Administrators to estimate any potential future dividend in due course.

All unsecured creditors with claims would be entitled to vote for an Unsecured Scheme which would need to be approved by 75% in value and 50% by number of each class of creditors voting at a meeting of creditors.

Development and timing

Further consideration will be given to the mechanics of implementing such an Unsecured Scheme over coming months.

As creditors are aware, considerable time and effort has been spent in developing a Client Assets Scheme and it is envisaged that significant elements of that scheme could be incorporated into an Unsecured Scheme.

Creditors will be kept apprised of developments on a proposed Unsecured Scheme in due course.

Section 5

Trust estate

Introduction

In this section, we set out progress relating to the Trust estate.

We have defined the Trust estate to include all dealings that relate to segregated Client Assets and Client Money. The section is divided into three parts:

- **Section 5.1** – Client depot securities. This details the issues associated with managing assets held by LBIE under charge or custody arrangements;
- **Section 5.2** – Trust Property and Client Money. This sets out the status of our dealings with Client Assets and Client Money, as defined under the FSA Client Asset Sourcebook; and
- **Section 5.3** – Client Asset Scheme of Arrangement. This section sets out our activities and progress in developing and implementing a composite framework for the return of Client Assets.

Section 5.1 Client depot securities

Overview

The key objective of the Client depot securities team is to gain control of the client securities inventory held within the extensive global legacy network of master and sub custodians.

This team supports the client facing Trust Property team activities detailed in Section 5.2.

Key achievements

At the outset of the Administration, LBIE reported \$35.2bn in segregated client securities. The movement since our appointment is summarised below:

	SoA (\$bn)
Value at 15 September 2008	35.2
Returned to clients	(13.3)
Redemptions held as cash	(0.4)
Mark-to-market revision	(5.4)
Segregated Inventory at 14 September 2009	16.1

This inventory is reported as being held at the following depots at 14 September 2009:

	SoA (\$bn)
LBIE controlled depots	8.9
LBI	5.9
LBJ	1.0
Frozen by custodian	0.3
Segregated Inventory at 14 September 2009	16.1

The above table illustrates that of the total Client securities, some \$6.9bn is held by Affiliates and their return is dependent upon the progress of the LBI and LBJ liquidation processes. To date we have no visibility on when or if either the LBI or LBJ securities will be returned to LBIE.

Progress

As with the House depots, an analysis of all activity that has occurred post-Administration and has impacted the legacy and new client securities accounts has been undertaken.

Within the remaining portfolio, the assets are categorised as follows:

- \$8.9bn under our control;
- \$0.3bn currently held at closed third party relationships; and
- \$6.9bn reported as being held at one of the Affiliate custodians.

LBI

We have retained a productive dialogue with the LBI Trustee and set out below our understanding of the key matters which affect LBIE clients who had securities held via LBI at the date of Administration. This summary is intended to be for information purposes only. Affected clients are advised to review communications issued by the LBI Trustee for further clarity.

The LBI Trustee must deal with four main issues ahead of returning securities to LBIE:

- Establish the extent of the pool of assets available to return to customers;
- Establish the extent of claims to the pool of customer property;
- Reconcile the movements in securities in the pool between 15 September 2008 and 19 September 2008; and
- Deal with a priority claim from BarCap to assets in the pool.

Each of these points is now considered:

On 6 October 2009, LBI filed a motion to allocate the assets of the LBI estate between Customer Property (amounts which will be paid to qualifying Customer Property claimants) and the general estate (amounts payable to the general unsecured claimants in the LBI estate). We understand that the Trustee is seeking to allocate the vast majority of assets (some \$17bn – \$18bn) to the Customer Property pool. The hearing is scheduled for 18 November 2009.

We understand that currently, claims to the Customer Property pool materially exceed the assets estimated to be allocated to the Customer Property pool. The LBI Trustee is reviewing the claims and expects to exclude a material amount of claims, including amounts relating to duplicate claims (e.g. where both LBIE and LBIE's clients have filed claims) and where claimants are not entitled to make claims against the Customer Property pool (which, we understand, include various claims from Lehman Affiliates). At this time LBI has not provided a quantification of these amounts.

We also understand that many of the securities recorded as being held by LBI for LBIE clients at 15 September 2009 were in fact either settled to clients or recorded as settled in the records of LBI in the period between 15 September 2008 and 19 September 2008, the date of the appointment of a Trustee to LBI. LBI has been working to reconcile these positions and will, in due course, provide details to LBIE. We understand that some 90% of the stock lines held by LBI recorded a movement in this period.

We understand that LBI and BarCap are presently in dispute regarding the sale of LBI's business. BarCap has apparently demanded billions of dollars of additional assets beyond those disclosed to the US Bankruptcy Court on 19/20 September 2008. LBI filed a motion on 15 September 2009, which is due to be heard on 15 October 2009. In the event that the issue is resolved in BarCap's favour, we understand that the pool of Customer Property could be depleted and the recovery prospects for LBI's customers materially adversely affected. At this time, the LBI Trustee has not quantified the size of the potential impact on the pool.

In addition to securities, LBIE clients have claims to certain cash balances in the LBI estate. Claims have been filed on behalf of Clients for such amounts. Settlement of these claims (which total some \$2.3bn) is subject to resolution of the issues detailed above.

We have been working with LBJ to recover the assets held in Japan, but complexities with the manner in which House and Client securities were held within the Group, has resulted in there being numerous claims to assets held in the various custodians. We continue to pursue recovery, but are not optimistic as to settlement in the short to medium-term.

Section 5.2 Trust Property and Client Money

Overview

The identification and return of Trust Property comprising of Client Assets and Client Money remains a core objective of the Administrators. A team comprising in excess of 100 staff remains integral to the Administrators' work to return Trust Property as soon as possible.

Key achievements

The Trust Property team continues to make progress, notably:

- 73 asset cases have been released with a market value, as at 12 September 2008, of \$13.3bn;
- A further 239 cases are in negotiation with clients, however difficulties remain with respect to the standard terms under the asset release framework;
- In conjunction with the Committee and SWG, we have designed, drafted and promoted a Client Asset Scheme in accordance with the Companies Act 2006 to provide a framework of procedures which could be used by LBIE for the purpose of returning Client Assets which LBIE holds or controls;
- Following the recent determination of the UK High Court on the jurisdiction issue, we have developed a contractual alternative to the Client Asset Scheme and are actively promoting it to affected clients;
- Submitted amendments to the SIPC omnibus customer claim filed on 30 January 2009, by the 1 June 2009 bar date and reconciled c.95% of the SIPC securities claim with LBIE and LBI books and records as at 12 September 2008;
- Commenced the negotiation of bilateral agreements with Affiliates – LBI, LBJ and Lehman Brothers Hong Kong entities ("LBHK") to agree the detailed practical steps required for the return of Client Assets;
- Submitted an application to the UK High Court on 1 May 2009, seeking directions on the treatment of pre-Administration Client Money held by LBIE;
- Gained control of in excess of \$3.6bn that is potentially Client Money (\$1.0bn returned to clients) and completed reviews of over 750 bank accounts to assess whether these accounts could have been used historically for Client Money transactions;

- The Administrators made an application to the UK High Court on 16 July 2009, seeking directions on the treatment of certain money (e.g. redemption proceeds, dividends or coupons) received by LBIE post-Administration in respect of securities held by LBIE as custodian under certain versions of the International Prime Brokerage Agreement: Charge Version ("Charge IPBA"); and

- Liaised with the German administrator of Bankhaus and provided the German administrator and the German Depository Protection Fund with evidence that the \$1.0bn Client Money deposit placed with Bankhaus was specific to individual Client Money claimants. The facts relating to the status of these monies have been presented to the FSA, the Bank of England and HM Treasury (the UK government's economic and finance ministry).

Progress

The Trust Property team continues to make good progress in identifying solutions and appropriate procedures for making distributions of Trust Property including:

- Designed, developed and implemented a Client Information Portal and issued letters providing access details to all pre-Administration Client Money and/or Client Asset claimants on 3 September 2009;
- On 8 September 2009, interim position and balance statements for Client Asset claimants were posted on the Client Information Portal. Client Money statements, as at close of business on 11 September 2008, were made available to pre-Administration Client Money claimants on 14 September 2009;
- Completed a comprehensive review of securities in charge and custody depots to identify potential shortfalls or surpluses in depots under the control of the Administrators;
- Established a body with senior decision-making representation, which includes the FSA in an observatory capacity, that meets weekly for overseeing the operation, and the overall management, of the return of Trust Property to counterparties with valid trust claims;

- Designed and implemented enhanced functionality to automate the identification of House assets available for sale and reviewed 95% of the total House inventory to determine third party and House ownership. This review included all securities in the global custodian accounts, a tripartite account and c.1,800 securities in depots not yet accessible to the Administrators;
- Carried out a thorough legal assessment of the title to securities ring-fenced for Clients and, where possible, released securities for House sale;
- Substantially completed the analysis of pre-Administration Client Money entitlement, now subject to Court directions, and verified customer details for this population of claimants; and
- Maintained client communication momentum, particularly on www.pwc.co.uk/lehman with regular FAQ postings and client updates and resolved in excess of 2,000 client queries.

Issues and challenges

There are a number of issues which have given rise to complexities affecting LBIE's ability to return property belonging to its clients. Set out below are some of the key practical and legal challenges that the Trust Property team directly oversees.

CLIENT MONEY

The ability to make an interim distribution of the pre-Administration Client Money pool requires reconciliation of two material issues:

- The precise application of the FSA rules to the Administration; and
- Recovery of the \$1.0bn deposit of Client Money with Bankhaus.

Following consideration of the 24 March 2009 High Court judgment in the *Global Trader* case, the Administrators made an application to the UK High Court on 1 May 2009 seeking directions on the pre-Administration Client Money held by LBIE.

Letters were sent to those clients who (according to LBIE's records) may have a Client Money claim on 13 May 2009 and 29 May 2009 to provide further information about the LBIE pre-Administration Client Money position.

Two procedural hearings were held on 15 and 16 July 2009 and also on 27 July 2009, at which six representative respondents were appointed. Full details, including a copy of the application and supporting evidence, can be found at www.pwc.co.uk/lehman.

A case management conference was heard on 24 and 25 September 2009 and the substantive hearing is scheduled to commence on 9 November 2009.

The amount of money available in the Client Money pool and the extent of clients' entitlements against it will vary significantly depending on the determination the Court gives to the questions raised in the application. The decisions reached will have an impact on what is included in, and excluded from the Client Money pool, who may and may not participate in the Client Money pool and the amount to be paid to those entitled to receive a distribution from it. The purpose of the Administrators' application is to initiate the process to address the issues relevant to LBIE to expedite the return of Client Money.

Bankhaus

The first Bankhaus creditors' meeting was held on 17 March 2009. One of the Administrators was in attendance to represent LBIE, however, LBIE was unsuccessful in securing a position on Bankhaus' creditors' committee.

A decision on the status and ranking of LBIE's \$1.0bn Client Money claim was expected on 7 July 2009, however, the German administrator put forward a proposal to delay its decision on adjudicating LBIE's claim to allow Bankhaus to further consider the underlying facts relating to the \$1.0bn deposit. The Administrators agreed to defer the claim adjudication to 20 October 2009.

The Administrators continue to meet with the German administrator to agree facts and contractual arrangements between LBIE and Bankhaus including:

- Chronological analysis of the movement of the account into which the \$1.0bn was deposited;
- Number and value of claims; and
- Posting of the \$1.0bn deposit in Bankhaus' general ledger.

The Administrators have provided an anonymised sample list of clients to the German administrator and the German Depository Protection Fund as evidence that the \$1.0bn deposit was specific to individual Client Money claimants. In addition, 18 of 36 underlying clients were contacted by the Administrators, and provided consent to disclose their name, address and Client Money balance segregated as at the time of Administration to the German administrator and the German Depository Protection Fund as further evidence.

In addition, the Administrators have presented the facts supporting LBIE's Client Money claim to the FSA, the Bank of England and HM Treasury to ensure that the Client Money claim receives the appropriate attention.

In the event that the claim is rejected, an objection will be submitted to the German court.

Post-Administration Cash Receipts

Post-Administration, a significant amount of money has been received by LBIE in respect of securities held by LBIE as custodian and these funds will continue to accrue.

On 16 July 2009, the Administrators made an application to the High Court seeking directions on the treatment of certain post-Administration Client Money received by LBIE. The application relates to money (e.g. redemption proceeds, dividends or coupons) received by LBIE post-Administration in respect of securities held by LBIE as custodian under certain versions of the Charge IPBA.

Many of the Charge IPBAs that LBIE entered into with Clients contain language intended to ensure that all cash received by LBIE, in some circumstances, will not benefit from Client Money protection or otherwise be held on trust and any recovery would be against the general unsecured estate. The application asks the extent to which this provision should apply to money received after the Administration, treating it as:

- Held on trust for a client, either pursuant to the FSA client money rules or otherwise;
- A liability of LBIE which is payable as an "administration expense". This would mean that the repayment of this money would rank senior to unsecured creditors; or
- LBIE money, therefore leaving the client solely with an unsecured claim on the general estate.

The two day hearing in the UK High Court was held in early October 2009, where LBIE and the respondents put forward arguments. Judgment has been reserved and is expected in due course.

Assets held by Lehman Brothers Affiliates

LBI

The Administrators filed a claim, on behalf of LBIE and its clients, in the LBI estate on 27 January 2009. LBIE and the LBI Trustee are currently negotiating a bilateral arrangement to agree the detailed practical steps that will be taken to resolve LBIE's Customer claims. The Administrators have engaged a US law firm which specialises in SIPC proceedings, to assist in these interactions with the LBI Trustee.

Allowable customer claims will be determined by LBI based on the net equity value of a customer's account as of 19 September 2008, the filing date of the LBI SIPC liquidation. The bar date for customer claims in the LBI SIPC liquidation was 1 June 2009 and the Administrators have since lodged an amendment to the SIPC omnibus claim which was originally filed on 30 January 2009.

The LBIE and LBI teams are working in parallel to reconcile the positions reflected, in respect of LBIE and its customers, on the books of LBI and on those of LBIE. Approximately 95% of the client securities positions, as at 12 September 2008, have been reconciled to both LBI's and LBIE's books and records.

Other Affiliates

The Administrators are engaged in regular dialogue with LBJ and LBHK and their legal advisers concerning bilateral agreements for asset return.

The reconciliation of LBJ's claim to LBIE books and records has been completed and the reconciliation of LBIE's claim against LBJ has been substantially completed, with limited reconciling differences to be investigated by LBJ.

Data availability restrictions experienced by the Liquidators of the Hong Kong entities remain the primary issue in respect to progressing the LBHK reconciliations.

Section 5.3 Client Asset return framework

Introduction

As set out in our previous report and various news releases, the Administrators have been working on the return of Client Assets held at the date of Administration.

There are a number of issues which have given rise to particular complexities affecting LBIE's ability to return property. The current mechanism in place to return Client Assets by individual bilateral negotiation has reported considerable progress, with over \$13.3bn of assets having been handed back, albeit subject to conditions.

Client Asset Scheme

Since our last report, LBIE promoted a Scheme of Arrangement under Section 895 of the Companies Act 2006 for the purpose of returning certain property which LBIE holds or controls and which belongs to its clients. The Client Asset Scheme included various provisions which enabled the net indebtedness between LBIE and the client to be determined and for these amounts to be settled as part of the asset return framework. The Client Asset Scheme also contained a mechanism for allocating any stock shortfalls to the competing claims of clients.

On 14 July 2009, the Administrators made an Application to the UK High Court to commence the Client Asset Scheme implementation process. An application to confirm that the Court had jurisdiction to allow a scheme to be promoted on the terms proposed by the Administrators was heard in the High Court on 29 July and 30 July 2009.

The High Court handed down its judgment on 21 August 2009. Justice Blackburne determined that the Court did not have jurisdiction to sanction the Client Asset Scheme proposed by Administrators.

The appeal process

After consultation with legal advisors and representatives of the SWG, the Administrators filed an appeal on 10 September 2009 with the UK Court of Appeal. GLG Partners LP, as representatives of the SWG, has confirmed that it intends to lodge written submissions to the Court in support of the appeal. The London Investment Banking Association has confirmed that it will appear as respondent.

The Court of Appeal has agreed to hear the appeal on an expedited basis, which is scheduled to be heard on 26 October 2009. Judgment is expected in November 2009.

The Administrators are anxious that the appeal process should not lead to any unnecessary delay in the return of Client Assets. Therefore, in parallel with the appeal process, they are developing alternative proposals that would also assist with the return of Client Assets, whether or not the appeal is ultimately successful. In addition, they continue to make bilateral returns.

The Contractual Solution

As an alternative to the Client Asset Scheme, the Administrators have developed a contractual mechanism to return assets to clients. In essence, the arrangement provides that, subject to sufficient affected clients agreeing to be bound, the Administrators will offer to such clients the ability to agree terms with LBIE which are substantially the same as those in the proposed Client Asset Scheme.

This framework is in the process of being refined and shared with affected clients. The Administrators intend to require that the overwhelming majority of affected clients must agree to the terms if it is to be implemented. Meetings were held with industry bodies during early October 2009, to share the structure and to take soundings. The output of those meetings has been fed into the process.

Current plans are to implement this arrangement in the fourth quarter of 2009, with a view to commencing asset returns by 31 March 2010.

Despite the attraction of this alternative arrangement, the Administrators remain of the view that a Client Asset Scheme is the optimal solution for clients as it provides protections which are not available under the proposed Contractual Solution.

Our current intention is to invite all affected clients to a meeting to discuss the Contractual Solution in early December 2009.

In the event that the appeal is successful, the Administrators intend to explore the timing for a suitable Scheme of Arrangement.

Further information on the current status of the Scheme proposal and alternative solutions can be found at www.pwc.co.uk/lehman.

Section 6

Middle office functions

Introduction

This section sets out further information on the middle office functions that support the client facing activities of the Administration.

These operations are critical to the effective processing and handling of dealings with clients.

The following activities are set out:

- **Section 6.1 – Failed Trades.** Responsible for establishing the manner in which failed and pending trades are to be dealt with for the 80 markets in which LBIE operated;
- **Section 6.2 – Corporate events and income processing.** Responsible for ensuring that all corporate actions, coupons and dividends relating to securities held by LBIE (both House and Client) are collected and accounted for; and
- **Section 6.3 – Terminations and Valuations.** Responsible for coordinating the collation of all termination notices and statements received, in addition to undertaking valuations to support the settlement and close out of counterparty positions.

Section 6.1 Failed Trades

Overview

Pending and failed trades affect approximately 4,000 of LBIE's estimated 6,000 counterparties with live positions.

There were 841,981 pending trades as at the date of Administration. The Failed Trades team have worked to collect failed trades receivables balances and agree related creditor claims.

Key achievements

The main achievements of the team include:

- Current status of the pending trades as at 15 September 2008, has now been validated;
- Completed valuation of 97% of failed trades impacting Street counterparties for inclusion in counterparty settlements;
- Implemented and initiated process for recovering receivables from failed trade-only counterparties;
- Continued collaborative process between LBIE and London Stock Exchange ("LSE") surrounding the review of initial counterparty determinations for LSE default rules;
- Support provided on claims progression for previously submitted claims (LBI and LB Australia); and
- Prepared fails data for inclusion in LBHI (*et al*) Chapter 11 and LBHI guaranteed entities' proprietary claims.

Progress

A total of 840,819 of the 841,981 pending trades as at 15 September 2008, have been fully reconciled to information received from external parties to date and categorised by counterparty type as per the table below:

Movements from 12 September 2008	No. of trades
Real world settlements	66,158
Contractually settled	179,222
Trades cancelled before settlement	111,980
Partially reconciled or unmatched	1,173
	358,533
Pending trades as at 12 September 2008 which failed	
Street counterparties	22,960
Intercompany	250,003
Client	210,230
Exchange	255
	483,448
Fails and pendings at 12 September 2008	841,981

Progress has been made in the valuation of failed trades affecting Street counterparties for inclusion in counterparty settlements. 96% of failed trade-only counterparties and 89% of cross-product counterparties have been fully valued.

The following table shows LBIE's current valuation of Street counterparties with fails exposure (excluding LSE trades). The remaining items to be valued are all illiquid securities or other exotic securities without readily available data.

Failed trade-only counterparties

	Debtor	Creditor
Counterparties	125	128
No. Trades	1,147	526
Value	\$62.1m	(\$51.7m)

Payment instructions have been issued to 40 failed trade-only counterparties, amounting to \$22m (35%) of the \$62m receivables value. Approximately \$10m has been collected to date. Furthermore, a monitoring process has been implemented to track counterparty responses, including tracking actions necessary to secure the receipt of funds.

Multi-product counterparties

	Debtor	Creditor
Counterparties	141	142
No. Trades	10,977	3,978
Value	\$348.5m	(\$155.5m)

Over 7,300 pending trades are impacted by the LSE default rules, covering 194 counterparties. To date, the LSE has provided LBIE with initial determinations for 65% of the impacted counterparties (5,249 trades). LBIE has reviewed and returned 95% of the initial determinations that it has received.

Issues and challenges

LBIE's ability to issue payment instructions for the remaining failed trade-only counterparties with receivables (representing 65% of the receivables balance), continues to be restricted by a number of factors, including:

- Visibility of real world status of failed trades where settlement was performed through a LBIE Affiliate (e.g. LBI, LBJ and/or LBF). This impacts 23% of the remaining receivables balance for counterparties with failed trade-only exposures. The team continues to work with the Intercompany team in order to obtain the necessary data to understand the real world status of these trades;
- Repudiatory Notice served to LBIE. A number of notices claiming LBIE's repudiatory breach in relation to failed trades have been received impacting c.19% of the receivables balance for counterparties with failed trade-only exposures. Legal advice has been sought and a strategy has been formulated to deal with these notices;
- Impact of market default rules. In three markets, default rules are known to have resulted in market participants (such as the exchange or the broker) having performed buy-in/sell-outs to cover LBIE failed trades. LBIE continues to have open discussions with its sub-custodians and other market participants in these markets in order to confirm the specific actions taken and to make the necessary adjustments to books and records prior to issuing payment instructions to the impacted counterparties. This impacts 3% of the remaining receivables balance for counterparties with failed trade-only exposures. For a further 14 markets effected by failed trades, the relevant custodian has not provided the required information to determine whether such actions have taken place, in order to allow LBIE to fully reconcile its stock and cash breaks. The team continue to negotiate directly with the custodian;
- Done Away Trades. 6% of the remaining receivables balance for counterparties with failed trade-only exposures relates to trades where LBIE in its role as clearer only, will not be able to recover any receivable balances. The process for validating LBIE's clearer-only role in these trades has begun in order to allow these trades to be removed from LBIE's books and records;
- Warrant failed trades. 12% of the receivables balance relates to 10 trades in warrants. Investigations continue into the underlying nature of the transactions, and specifically, any linkage to derivative transactions governed by contracts such as ISDAs, in order to determine the appropriate termination valuation and mechanism for resolution;
- Incomplete valuation of trade population. 1% of the failed-trade only counterparties currently viewed as debtors have unvalued trades due to the illiquid nature of the underlying securities. LBIE continues to obtain accurate pricing for these securities;
- Pending settlement instructions in Central Securities Depository ("CSD"). Various regulations prevent LBIE from removing settlement instructions in the respective CSD and therefore LBIE's ability to net-settle the underlying trades outside of the settlement systems is restricted. For 11 markets, all operated by the "closed" sub-custodian, (see Section 4.4), LBIE has been unable to confirm the status of the settlement instructions in the CSD. LBIE has contacted all the impacted CSDs in order to obtain further information. This affects 1% of the remaining receivables balance for counterparties with failed trade-only exposures; and
- The Failed Trades team continues to support the Counterparties team on fails impacting counterparties with cross-product relationships. The team will also continue to support the Intercompany team for the production and finalisation of fails data for Affiliate claims and to the claims progression team in relation to previously submitted claims.

Section 6.2 Corporate events and income processing

Overview

The Corporate events team has two priorities:

- Dealing with receipt of coupons and dividends; and
- Dealing with client requests and processing both voluntary and mandatory actions.

Creditors will recall that the IT and processing capability of the team was seriously impaired following the insolvency of LBIE and the sale of the operations of LBI to BarCap. This matter has now been resolved by streamlining the team's processes using a modified IT solution which has enhanced the efficiency of the team and cleared processing backlog issues.

Key highlights

- \$3.3bn cash has been received by the team since the start of the Administration. The funds are held in accounts controlled by the Administrators, comprising of c.\$2.3bn from corporate actions and \$1.0bn from income. Of the total amount received for corporate actions, c.\$1.4bn relates to client securities redemptions and c.\$0.9bn to House assets redemptions. With respect to income, c.\$0.4bn relates to House assets and c.\$0.6bn relates to Client Assets. To date, c.300 corporate actions have been processed, comprising c.150 mandatory and c.150 voluntary events.
- Income processes have been streamlined using systems which capture all income events.
- A contract with a third party market-data provider has been negotiated and implemented. Market-data feeds on corporate actions and income events are now received on a regular basis to ensure LBIE can monitor and receive all funds that are due.

Progress

- The team have maintained client service on voluntary corporate actions.
- An ongoing reconciliation exercise is underway to establish the position between LBIE and certain Affiliates.

Issues and challenges

- Carry out a detailed review of all income that has been received to date, using new market data feed to ensure that all income due has been received and correctly classified and pursue where necessary.
- Lack of visibility of LBI and LBJ stock lines continues to hinder the reconciliation of corporate events databases and records.
- Understand the needs of the Affiliates and provide support within the constraints of the Administration.
- Further streamline the IT processes and systems, with particular regard to those used in corporate actions.
- Implement a robust pay-out process to facilitate timely payout once beneficial ownership is clear.

Section 6.3 Terminations and Valuations

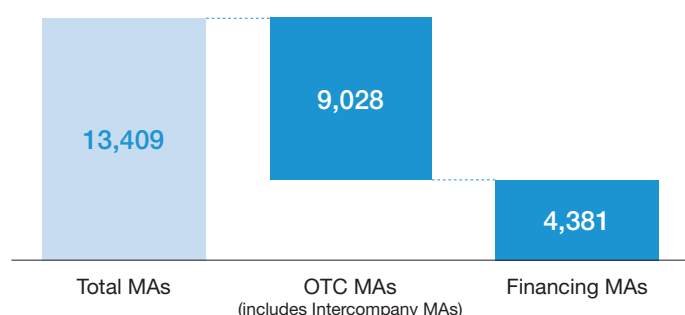
Overview

The Terminations and Valuations team is core to the Administration to coordinate the processing of OTC derivatives terminations and related valuations.

Overall, the challenges faced by the team are primarily of scale and complexity in terms of trade volumes and agreeing close-out valuations. The team is focused on:

- A population of 13,409 Master Agreements for OTC derivatives and financing (excluding PB Master Agreements):
 - 2,075 are terminated and a valuation statement has been received. The team's focus is to value, reconcile and agree trade populations;
 - 10,336 were recorded as having no trades at the date of Administration. The focus here is to confirm no trades have occurred; and
 - 998 agreements are either not terminated, or terminated but no valuation statement has been submitted by the counterparty. The aim is to identify the best course of action for the Administration (e.g. terminating contracts, obtaining missing statements).
- A population of c.158,700 OTC derivatives trade legs to value and reconcile. 97% of the trades have been terminated, and 96% of the terminated trades have been valued across fixed income and equity.

Master Agreement by Type at 14 September 2009



Progress

The in-house legal team has continued to be core in the management of financing and derivatives legal agreements:

- The legal team continues to receive, identify, verify legal documents and log them in the Asset Realisation Tool ("ART"). Over the past six months, this represents an increase of c.1,200 termination notices/valuation statements;

- In conjunction with the negotiators and the other relevant teams, an initiative has been implemented to pursue counterparties that have terminated their Master Agreements but not yet submitted valuation statements. An escalation procedure has been implemented to address this; and
- The initial focus has been on net debtors to the estate. In the region of 640 letters have been sent over the past 6 months, resulting in the receipt of c.380 valuation statements.

In addition, the legal team continues to provide significant support including:

- Legal challenge, negotiation and settlement of claims (e.g. investigated c.160 cases of counterparties asserting set-off); and
- Mapping of derivatives and financing trades to correct legal arrangement and establishing legal status of termination.

Reconciliations

Over the past six months, the reconciliation team's processes have been strengthened, resulting in an interchangeable resource pool, the operation of more standardised processes and the provision of reconciliation activities to a wider number of front and middle office teams.

In addition, the initial steps of a feasibility study for outside suppliers to provide assistance to the Administration with data and reconciliations have been completed.

Significant progress has been made on trade reconciliations between counterparty statements and internal trade inventories.

- For OTC derivatives, the trade reconciliation team have now successfully reconciled trades for over 1,260 agreements where a counterparty valuation statement with sufficient information was received (out of c. 1,530 OTC derivative agreements), representing c.580 external counterparties or c.32,600 trades. This is an increase of c.630 contracts over the past six months.
- For financing, a shared service framework has been established to address reconciliation and valuation needs for financing products, on the same basis of activities initially performed for OTC derivatives. To date, c.240 populations have been reconciled.

The processing of derivatives and financing legal claims with some of the key Affiliate entities has required significant reconciliation efforts, in particular to review the trade populations and perform the mapping of back-to-back internal trades with the street leg (more than 43,000 trades have been reconciled so far).

OTC derivatives valuations

Valuation processes have been further enhanced during the last period, in particular, the provision by third parties of market data and equity derivatives valuations. Quality assurance reviews are performed internally over the data provided and external valuations.

- For fixed income derivatives, 96% of the terminated trade portfolio is now valued in comparison to c.65% in April 2009.
- For equity derivatives, 83% of the terminated trade portfolio is now valued.
- A database has been created to manage and price c.229,000 missing cash events to be incorporated into derivative valuations.

Cash Securities Pricing

In addition to the valuation of OTC derivatives, the Termination and Valuation team provides prices for c.30,800 cash securities at different dates (including c.400 illiquid positions), depending on the requirements of the middle office teams. The pricing framework has been strengthened, improving the price accuracy and reliability (in particular for most illiquid securities where no market quote is available):

- A central price library has been implemented and contains time series of price data back to 15 September 2008; and
- A Securities Pricing Tool ("SPT") has been developed, enhanced and quality assured to enable the re-pricing of the whole custodian portfolio at T+1 (representing c.10,500 securities), which is required twice a month

IT/Data and Support

Significant developments have been performed on ART in order to meet wider business requirements and assist the front and middle offices to deliver, including:

- Proposed Client Asset Scheme framework to consolidate the asset holdings held by trust clients;
- Generation of client interim balance and position statements; and
- Financing inventory module.

Issues and challenges

The team continues to focus on the following:

- Complex legal reviews are required to assess the validity of termination and valuation notices and identify which can be challenged;
- A number of counterparties have not submitted valuation statements. These are critical to the completion of trade reconciliations. An escalation procedure has been implemented and whilst there has been some response, there is still a large number of valuation statements outstanding. Counterparties are urged to submit their valuations as soon as possible;
- All pre and post-Administration contracts and notices (representing more than 150,000 documents) are currently stored on various legacy systems and will be migrated and centrally managed on a new LBIE system;
- Ensure corporate actions since 15 September 2008 are appropriately reflected in valuations, once processed by the Corporate events team;
- Continue to improve pricing techniques around illiquid and complex securities (e.g. private equity);
- Continue quality assurance reviews around equity valuations and market data provided by third parties;
- Provide re-valuations for the Client Assets securities portfolio, at multiple valuation dates, in order to support the process of returning Trust Property. Systems and processes will need to continue to be enhanced in order to ensure this can be done efficiently and effectively;
- Assist in the performance of the back-to-back mapping of a large number of complex positions, as required for the processing of intercompany claims; and
- Further significant developments are required to ART in order to support the Administration.

Section 7

Back office functions

Introduction

This section sets out further information on the back office functions that support the work of the front and middle office teams. Some of the back office functions are provided by Lehman Brothers Limited (“LBL”) in its capacity as service company for the Lehman Administration Companies and recharged to LBIE.

The following specialised areas provide the infrastructure to support LBIE to enable it to carry out its operations efficiently:

- **Section 7.1 – Treasury.** Manages funds realised in the Administration and ensures all accounts held by LBIE with cash balances at the date of Administration are collected;
- **Section 7.2 – Reporting.** Responsible for managing the progress of LBIE’s counterparties against the SoA. The team report to the Committee and creditors generally and also prepares and distributes management information to the Administrators;
- **Section 7.3 – Information Technology.** Manages the Administration’s ongoing IT needs;
- **Section 7.4 – Infrastructure and Property.** Manages LBIE’s London premises;
- **Section 7.5 – Human Resources.** Manages all matters relating to the retention, reward and day-to-day operations of the Lehman staff;
- **Section 7.6 – Regulatory and Compliance.** Ensures ongoing compliance with FSA and other regulatory requirements and handles investigations; and
- **Section 7.7 – Tax.** Deals with all ongoing tax matters, including corporation tax and withholding tax.

Section 7.1 Treasury

Overview

The Treasury function is responsible for managing the funds realised in the Administration, and also, ensuring that all accounts held by LBIE with cash balances as at the date of Administration are reconciled.

Key achievements

Treasury has successfully implemented procedures to effectively manage LBIE's cash, both for the unsecured and Trust estates. Key achievements include:

- \$11.7bn (net) cash and long term investments under the Administrators' control at 14 September 2009;
- An additional \$5.3bn of cash has been collected since the April 2009 progress report;
- Of the 1,552 pre-Administration bank accounts, 321 have been closed and a further 576 have been instructed for closure, representing 58% of the total account population;
- Significant progress on the reconciliation of pre-Administration cash accounts with 60% of cash breaks on legacy agent bank accounts resolved; and
- An investment policy and dedicated investment team has been established to manage the estate's cash with a primary strategy of protecting the funds whilst maximising returns.

Investment Policy and Investment Status

House estate

- As at 15 September 2009, LBIE held \$9.2bn of House monies in cash and investments under the Administrators' control. This is a \$4.0bn increase on the amount reported in the April 2009 progress report.
- The monies comprise:
 - \$5.9bn invested in short term deposits (1 or 2 weeks) with an average return of EUR 0.16%, GBP 0.24% and USD 0.14% in August 2009. LBIE currently has 12 banks with signed mandates within policy;
 - \$1.1bn held in interest bearing accounts at various AA- or above rated institutions;
 - \$0.3bn of AAA EUR Government bonds previously held by LBIE with under three years to maturity were designated as hold to maturity and included in House monies; and

- \$1.9bn of short dated (under 1 year) AAA Government Bonds managed by two fund managers.

- 95% of House monies invested in interest bearing accounts at 14 September 2009.

Fund Managers

- The investment policy for House monies allows investment in AAA short dated (< 1 year) Government Bonds.
- All bonds are held to maturity with a third party custodian. The fund managers' performance are measured against one year benchmarks.
- Two fund managers have been appointed to date and the Administrators are in negotiation with another potential manager to achieve further diversification.
- As at 14 September 2009, \$1.9bn is invested in bonds (\$1.1bn USD, \$0.8bn EUR). The average yield to maturity is USD 0.14% and EUR 0.37%.

Trust estate

- As at 14 September 2009, LBIE controls \$2.5bn of Client Monies in cash and investments. This is a \$0.3bn increase on the amount reported in the April 2009 progress report.
- Client funds comprise:
 - \$1.25bn held in interest bearing accounts; and
 - \$1.25bn in short term (1 week) deposits in line with FSA guidelines.
- Additional banks for short term deposits have been identified and mandates are in the process of being established.

Issues and challenges

- Engagement of an additional fund manager to achieve optimum diversity in the Administration's investment portfolio.
- Continue to liaise with custodians to obtain required documentation.
- Ongoing exercise to pursue pre-Administration agent bank cash balances which require extensive negotiations and/or are subject to local jurisdictional complexities.

Section 7.2 Reporting

Overview

The Reporting team is responsible for tracking the progress of LBIE's counterparties against the SoA. This exercise assists the Administrators to manage LBIE's asset realisations and quantify LBIE's liability position. The team also produces regular management information to the Administrators and management team, in addition to preparing information for the Committee and creditors generally.

The Reporting team ensures compliance with the Administrators' statutory reporting obligations set out in the IA86.

Progress

Following the completion of the SoA, there has been an ongoing exercise to track and reconcile the number of active counterparties and number of trades to each of LBIE's front office teams. The objective of this exercise is to control the close out and realisations of the transactions to which LBIE is a party to on a counterparty by counterparty basis. Furthermore, this assists the Administrators to manage asset realisations made to date and in time, this will enable the Administrators to develop a comprehensive analysis of LBIE's actual liability position according to LBIE's books and records.

A team within the Reporting activity is responsible for this core activity and report their progress to the management team on a weekly basis. The streams of activity underway are summarised as follows:

- Transaction reconciliation. To ensure that all transactions included in the SoA are allocated to a front office team. This ensures that all transactions existing at the time of Administration are taken into account when valuing positions or a given product type. Where discrepancies have been identified between clients and the underlying SoA, data systems are used by the front and middle office teams to assess the correct position with reference to underlying legal agreements, trade details and other corroborating evidence.
- Counterparty allocation. To ensure that all counterparties in the SoA are allocated to a front office activity. This ensures that all counterparties are owned by a front office team and thus are all prioritised for debtor collection or claim handling.
- Summary MI. Bi-weekly management information is produced by the team to enable analysis of debtor and creditor balances, cash recovered to date and remaining debtor balances estimated to collect.

This is a complex data management exercise being coordinated by the former European financial controller of LBIE.

Section 7.3 Information Technology

Overview

The role of the Information Technology (“IT”) team is to provide LBIE with a secure, stable, cost effective and appropriate technology platform to facilitate the activities and financial objectives of the Administration.

The key tasks required to deliver the short-term objective of maintaining the operational technology platform include:

- Support of applications required by the business, including tools developed specifically to support the Administration;
- Delivering robust IT security;
- Managing the service delivery from Nomura and BarCap;
- Managing contracts with key external parties; and
- Supporting forensic investigations.

The long-term objective to rationalise the technology footprint and reduce cost will be achieved during 2010 through the delivery of a cost reduction programme. The cost reduction programme is organised around three interdependent initiatives:

- Forensic data capture;
- Application rationalisation; and
- IT infrastructure rationalisation.

The delivery of the change programme is scheduled to coincide with the expiry of the Transitional Services Agreement (“TSA”) with Nomura in October 2010, through which technology services are provided.

LBIE also requires provision of technology service from BarCap through its US platform.

Key achievements

The BarCap TSA was signed in June 2009 after extensive negotiation to ensure that the standard and certainty of technology services delivered under the contract would be adequate for the needs of the Administration. Concluding the TSA negotiations has enabled:

- Additional access to applications hosted by BarCap, improving the rate of processing by the front and middle offices;
- Knowledge transfer of applications to facilitate the application rationalisation and forensic data capture work; and
- Delivery of LBIE data held on BarCap systems for forensic data capture.

Progress

- Applications used for Administration activities reduced by 43, from 154 to 111;
- Initiation of the IT change programme;
- Further enhancements to the ART tool that was developed to support the core Administration processes;
- Cash Pricing Tool developed to allow regular re-pricing of all cash securities;
- Deployment of a single repository of client communications and details;
- Forensic historic data capture from 30 of the targeted 110 applications completed – target for completion in early 2010;
- Solutions defined for future state application landscape;
- 2 of the 12 application rationalisation projects successfully delivered – target for completion of all 12 projects is mid 2010; and
- High level design for rationalised data centre complete – target for go-live is late 2009.

Forensic data capture

- Identified 110 key applications to be preserved to support investigations and regulatory and compliance reviews from a total of over 2,700 global applications.
- Completed the data capture of 28% and the knowledge transfer for 21% of the applications based in the UK and US.
- Developed the mechanism for identifying historical data from pre and post-Administration backup tapes (c.50,000 tapes) in order to support investigations and data requests from Affiliates.

Administration tools

- Client contact history database delivered and rollout across the Administration has commenced.
- Reference database of historic cash security prices completed with daily updates of new prices automated.
- ART now enhanced to handle all termination notices, counterparty agreements and counterparty roll-ups.
- Automated the pricing of all cash securities via SPT. The front and middle office teams are now able to regularly price cash securities in which LBIE has an interest.

Application rationalisation

- The application rationalisation programme is an initiative to streamline and decrease the amount of applications used by LBIE as part of the IT cost reduction programme to achieve a target architecture by mid 2010.
- The programme is now well established and integrated with a business change team to ensure projects are rolled out with minimal impact to the business.
- As a result of two rationalisation projects delivered during the period and continued assessment of application usage by the business, the number of applications has been reduced from 154 in March 2009, to 111 as at September 2009.

IT infrastructure rationalisation

- The team have completed a strategy for the design, development and operation of the rationalised data centre to enable the IT infrastructure to become independent of LBIE's building occupation.
- Mobilisation of the team has facilitated the governance and support in delivering the project.
- The design of the rationalised data centre required to maintain operational continuity has been completed. Focus will now be on implementing the strategy.

Issues and challenges

- As highlighted in the April 2009 progress report, the acceleration of the change programme, while continuing to deliver a secure and stable operational environment has required additional resource and investment to the IT function. Although early delivery of the programme would result in cost reduction benefits ahead of schedule, the additional investment and disruption to the business in accelerating the programme would be counter-productive in achieving the Administration's primary objectives.
- In order to deliver the programme it will be necessary to retain key staff to operate the existing environment and contribute to the programme delivery.
- Maintaining service levels delivered under the TSA has required significant attention from IT management. It is expected that a combined focus on separation, will benefit both parties, especially in respect to delivery performance.
- The co-mingled nature of the data residing on the European systems continues to impact the speed of data delivery to Affiliates without breaching data and banking regulations. A team has now been established to separate the client confidential data required by Affiliates.

Focus

Over the next six months, the IT function will:

- Maintain support of the IT architecture;
- Exercise to refine tools to support the Administration;
- Manage TSA services;
- Continue to reduce IT applications;
- Finalise independent IT infrastructure operations;
- Deliver a solution to host read only data from multiple applications in a data store;
- Data capture and knowledge transfer of all remaining targeted applications based in the US and the UK; and
- Commission rationalised data centre strategy and execute separation of the existing infrastructure.

Section 7.4 Infrastructure and Property

Overview

Infrastructure and Property (“I&P”) is a function provided by LBL specifically dedicated to manage the Bank Street, London premises. The focus of the I&P team has been to:

- Reduce LBIE’s cost base;
- Continue essential IT and property services; and
- Coordinate the recovery of costs incurred from the various UK Lehman Brothers entities in Administration and subtenants.

Work to reduce LBIE’s cost base, particularly real estate and IT infrastructure costs, has been the key focus of the I&P team. A detailed strategy has been produced, the implementation of which will form the key focus for the I&P team going forward.

Key achievements

The key highlights of the period for the I&P team in its objective to reduce costs for LBIE are:

- The lock down of vacant and under-utilised floors;
- Generating additional revenue by hosting a number of external events at Bank Street;
- Reviewing and renegotiating contracts, where appropriate, on more commercial terms with current and new vendors; and
- Formulating a strategy to materially reduce long term occupancy and IT costs.

Progress

The I&P team continues to successfully manage essential services for the ongoing operation of LBIE in addition to:

- Ongoing disposal of leasehold interests of LBIE branches within Europe. Negotiations are continuing in this regard and it is hoped that any remaining interest in the branches to Nomura will soon be finalised;
- The exercise of recording, categorising and storage of essential records and documentation has been largely completed. This also includes the implementation of a document management and retrieval system to enable efficient retrieval of required documents from archives;
- A contract management database to provide an effective system for the management of vendor contracts was successfully implemented; and
- Concluded the exercise of identifying ownership of assets located within the Bank Street building to effect a suitable asset realisation strategy.

Issues and challenges

The main challenge encountered by the I&P team has been the consolidation of occupation requirements and recovery of outstanding invoices from certain vendors. This issue has been resolved through the relationships established with vendors during the Administration.

Focus

The I&P team’s main focus going forward will include:

- Implementing a strategy to reduce LBIE’s real estate and IT infrastructure costs;
- Completing the disposal and transfer of the remaining LBIE branches;
- Managing the ongoing operations in Bank Street; and
- Re-negotiating service contracts due for renewal to agree a basis of continued supply.

Section 7.5 Human Resources

Overview

Human Resources (“HR”) is a function provided by LBL which is responsible for all matters relating to retention, reward and restructuring of LBIE’s employee base. The focus of the HR team has been to:

- Provide day-to-day support for the c.440 remaining LBIE employees and contractors, in addition to dealing with all HR related issue for the Administration including:
 - Pension issues;
 - Benefit issues;
 - Other statutory employee requirements; and
 - Mitigate employee risk and claims.
- Drive the performance management process including the completion of all mid-year reviews;
- Support the transfer of employees subject to management buyouts where LBIE has an economic interest, in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (“TUPE”);
- Complete all required employee tax reporting for the 2008/2009 fiscal year; and
- Support the Administrators’ future resource planning and retention strategies.

The management of the core staff is critical to the Administrators achieving the objectives of the Administration, especially in relation to asset realisations. We expect to continue to retain a large number of Lehman employees for some time to come.

Progress

The overall employee population has been relatively stable in the period, with an acceptable level of turnover and replacement hiring. Notable areas of progress are:

- Preparation and filing with HMRC the P11d and annual settlement form detailing the payments, expenses and benefits made to employees for both the pre and post-Administration periods;
- Targeted recruitment – a rigorous process is undertaken to assess the business justification of any additional hires to optimise efficiency of the Administration;
- A rigorous mid-year performance management process was completed with 100% compliance measuring the staff’s individual objectives against the overall objectives of the Administration. All reviews were audited by HR to ensure that a consistent and robust approach was adopted and active management of any low performers;
- Day-to-day HR support to employees has continued on an ongoing basis;
- TUPE consultation and transfer process completed on certain management buyout deals – c.96 employees were transferred to new employment;
- Ongoing management of all employee litigation cases to minimise claims against the Administration;
- Continuing communication with employees around various benefit issues including the transfer out from the UK company pension scheme of defined contribution benefits and contracts; and
- Regular communication to employees around issues that impact them and, reinforcing how the remaining staff are individually contributing to the Administration and meeting the overall objectives.

Issues and challenges

The employee dynamic is evolving as the Administration develops. There are a number of challenges that need to be addressed to ensure that the adequate balance of resources available is motivated to effectively support the Administration.

- The LBIE Operating Model introduced at the beginning of 2009 will continue to evolve in order to meet the changing priorities of the Administration. Employees will be kept informed of changes to the structure and full support will be provided throughout the change process.
- Understanding what resources are needed in the short to mid-term is essential to having the right resources available to meet LBIE's requirements.
- Key employees will need to continue to be retained, rewarded, managed, and motivated to support the successful and cost effective wind down.

Focus

Over the next six months, the HR team will focus on:

- Understanding the resource requirements for 2010 and beyond. In addition, the team will be contributing to the development and communication of the new Operating Model and support employees during the change process;
- Operating a robust year end performance management process to ensure employees are rewarded based on their performance against objectives;
- Determining the appropriate performance bonus awards for 2009;
- Developing the 2010 approach to reward on a performance basis which drives performance and supports retention;
- Ensuring that objectives for each individual are submitted for 2010 and that each objective is closely aligned to the objectives of the Administration;
- Implementing a new HR database to store all data required on current and past employees;
- Ongoing management of all HR issues including mitigating employee claims and supporting any further employee transfers to new companies; and
- Reviewing benefits and training needs to support staff performance and retention.

Section 7.6 Regulatory and Compliance

Overview

The Regulatory & Compliance (“R&C”) team combines regulatory specialists drawn from the Administrators’ staff and Lehman staff to ensure ongoing compliance with FSA and other regulatory requirements, in addition to undertaking investigations.

LBIE continues to have FSA authorisation and various other authorisations outside the UK.

Key achievements

- Reviewed “Know your Customer” documentation for over 2,500 principal names completed in preparation for the return of Client Assets and Client Money.
- Completion of alignment of FSA Approved Persons for LBIE post-Administration, which required modifications to over 2,000 registrations.
- Short-term secondment of individuals from LBHI into LBIE in accordance with terms under the TSA.
- Comply with Anti-Money Laundering (“AML”) procedures to reduce risks for new counterparties, and monitor payments and counterparty names against international sanctions lists.
- Engaged with the FSA regarding key issues, including assisting with regulatory investigations, reporting and statutory disclosures.
- The R&C team has worked with other Lehman Group entities, which LBIE has an economic interest in, to ensure separations have been managed appropriately, and that regulatory issues have been handled correctly.
- Prepared reports at the request of various regulators.
- Ongoing collaboration with LBIE staff unwinding LBIE’s positions to provide advice and support to manage regulatory and reputational risks.

Progress

The R&C team has been required to review previous approaches to compliance risks and adopt them into the operating environment of the Administration. The risk areas addressed include:

- Conflicts of interest that may arise in the Administration;
- The possibility of the Administration being used for market abuse; and
- The risk of the Administration being used for money laundering purposes.

The R&C team has engaged with the front and middle office staff to roll-out and communicate on the updated internal policies and guides. Training has also been provided across the Administration to raise awareness of key compliance issues including market abuse and insider dealing, conflicts of interest and AML.

The R&C team will continue to:

- Provide prompt responses to formal and informal requests from FSA and other regulators for trading or other information relating to pre and post-Administration activities;
- Liaise with the FSA relating to supervision and other matters;
- Provide information to other parts of the Administration regarding pre-Administration compliance processes and records for the purposes of progressing work on LBIE;
- Respond to mandatory position disclosure requests;
- Review trading activity to ensure relevant large position disclosures are made;
- Respond to factual regulatory references for former LBIE/FSA approved persons;
- Review counterparty and payment screening monitoring alerts against international sanctions lists; and
- Process and review personal account dealing requests, and outside business interests, to manage possible conflicts and potential market abuse.

The R&C team has continued to provide advice and support in relation to a number of transactions to find practical solutions whilst managing the regulatory risk to the Administration.

Issues and challenges

In summary:

- With the Administrations' focus on continuing to close-out transactions and realise assets, the R&C team provides ongoing regulatory advice, training and general compliance support to the front office teams. This includes advice in relation to trading and dealing with counterparties, and covering topics such as market abuse, conflicts of interest, information flows and intercompany arrangements;
- The R&C team will continue to provide specialist advice regarding new counterparties as staff unwind LBIE positions, particularly in higher risk jurisdictions;
- The R&C team will engage with, and advise, the relevant parts of the Administration such that records sufficient to ensure compliance with regulatory record keeping requirements are maintained;
- The R&C team will complete, maintain and record the Administration's compliance framework, including a risk assessment framework, outlining the approaches taken to mitigating key compliance risks; and
- Ensure that regulatory requirements are articulated and communicated effectively within the Administration on an ongoing basis, so that awareness of compliance arrangements and regulatory responsibilities is maintained.

Section 7.7 Tax

Overview

The primary role of the Tax team has been to consider the status and obligations in relation to various taxes and ensure that a clear strategy is set out and procedures are in place to maximise value for LBIE and minimise exposures.

The Tax team function is working towards optimising the tax position of the UK Lehman Group with the purpose of securing a repayment of some £170m of UK Corporation tax. However, given the current economic climate and the fall in corporate tax reserves generally, Her Majesty's Revenue & Customs ("HMRC") may delay possible repayments to LBIE.

Further, LBIE's various types of taxes and complexity of the case has made the process extremely challenging. Accordingly, a number of critical steps have been taken:

- Ongoing procedures to establish the estimated quantum of tax recoveries;
- Successfully satisfying all necessary tax compliance deadlines obligations for the period;
- Meetings with HMRC to discuss open returns and conclude legacy issues;
- Defended overseas branch tax filing positions on challenges from the local tax authorities; and
- Developed a strategy to minimise specific liabilities and mitigate any potential risks in relation to Stamp Duty Reserve Tax (Intermediary status); US withholding (Qualified Intermediary status) and Manufactured Overseas Dividends ("MODs").

Key achievements

The key highlights during the period have been:

- Successful negotiations with Korean tax authorities to establish a cash tax saving of c.\$75m on corporate tax up to 2009. Further negotiations regarding post-Administration tax periods include potential tax recoveries on overseas branches as a result of tax planning – c.€9–10m in Netherlands for FY 2006/2008; c.€3.4m in Italy for FY 2008 and final year;
- In Germany and the Netherlands, the tax filing position in respect of branch/'Head Office' balances is a complex area that extends beyond the scope of national tax jurisdiction to the application of European Union Law. The Tax team has been exploring the options available under EU legislation to be able to conclude on an optimum filing position such that tax recoveries are maximised. The potential benefit to the estate is up to €10–15m;

- The success of the application to the UK High Court to extend the Administration, has allowed for flexibility in tax planning, and enhanced value to the estate;
- Several meetings with HMRC to agree a way forward on MODs, both in respect of LBIE compliance and the impact of Client Asset return framework; successful resolution with HMRC of the tax reporting issues associated with MODs and in particular to propose that the date of default of respective financing agreements is used as the date of payment for the purposes of the MOD rules;
- Given that the tax repayment is governed by the Group Payment Arrangement ("GPA"), all group tax returns for open years are required to be filed. A total of 176 corporation tax computations have been filed to date;
- Successfully negotiated with HMRC on majority of the issues raised such that only two formal enquiries have been raised by HMRC in respect of 2005 and 2006; and
- Reached agreement with the Norwegian tax authorities for the repayment of c.£600k of Norwegian withholding taxes arising in 2005 and 2006.

Progress

Tax Repayments

- An analytical review was completed to identify the quantum of tax repayments due from HMRC.
- Completion of a detailed technical analysis of the manner in which the GPA should operate in relation to the mechanics of securing repayments. The process includes obtaining the opinion from Counsel and writing to HMRC setting out our views of the expected procedures that should be adopted for making reclaims.
- Liaising with HMRC to review open returns – in particular the 2005/2006 returns filed to date.
- Compilation of corporate tax bibles for the years 2000 to 2006 summarising the tax position by company, tax payments and group relief position.
- Updating "Joint Amended Returns" for 2004 to 2006 and submitting 2004 and 2005 returns with HMRC. These formally record the expected tax position and group relief payments between the Lehman Group of companies.

Operations

- Client Asset return framework – review of documentation, discussion with legal advisers on key issues and meetings with HMRC to achieve optimal treatment.
- Responding to tax authorities from US and Finland to defend their demands to claw back on withholding tax relief previously given and putting in place mechanisms to avoid future withholding taxes on income, an amount which is currently unquantifiable.
- Discussion with HMRC on MODs and how to minimise possible cash leakage, identified a high level exposure of £24m.
- Commenced proceedings in the Italian courts to protect c.€27m of reclaims historically recovered by LBIE with potential to recover a further c.€72m.
- Reviewing legal advice and reaching a conclusion with regard to the extent to which LBIE is required to mitigate the tax costs of trust clients.
- New legislation has been introduced by the Finance Act 2009 which inter alia seeks to limit interest deductions in thinly capitalised global tax groups. Also, successfully obtained HMRC's agreement that they will not seek to apply these rules to the Lehman Group.
- Obtained clearance from HMRC that LBIE continues to be treated as an intermediary for UK stamp duty/ stamp duty reserve tax purposes. This means that LBIE can continue to acquire, dispose and otherwise deal in UK chargeable securities without incurring UK stamp duty.
- Preparation of a paper which sets out ways in which LBIE could consider planning around its Foreign Tax Credits. Whilst this is not of immediate application, it may be relevant should LBIE continue to accrue divided income.
- Setting out a robust systematic process for the identification, filing and follow up of withholding taxes arising on various securities which were originally tackled on an *ad hoc* basis. This should result in the repayment of c.£22m in respect of income accrued up to 15 September 2008. Follow up included advising on the practical risks that may arise in the event that existing agent bank networks are closed down and highlighting concerns that reclaims may be retained by agents.

Branches

- Provided assistance in relation to the audit of the LBIE – Seoul branch which resulted in final conclusion on tax audits for FY2004-2009 being reached. The Korean tax authorities challenged the Seoul branch's tax return in a number of areas and it was initially expected that the outcome of the tax audit would materially impact the asset recoveries for the estate from the Seoul branch. The challenges were successfully defended by the Tax team achieving a tax saving of c.\$75m based on an initial indication of the final tax liability.
- Coordinated the tax compliance process with overseas offices and ensured timely submission of corporate tax returns in Korea (up to FY2009); Spain (up to FY 2008); Germany (up to FY 2007) and Italy (FY 2008).

Issues and challenges

HMRC Relationship

Various tax related aspects of the Administration will potentially be affected or influenced by HMRC (including, in particular, successfully obtaining a refund for corporation tax using LBIE tax losses).

The Tax team are continuing to have regular meetings with senior HMRC officials to reach quick agreements on outstanding issues.

HMRC may delay any repayments given the current economic climate and the fall in Corporate Tax reserves.

Post-Appointment accounting

Continuity in staff and availability of information for LBIE to prepare financial statements for the Administration period, specifically, basis and statutory obligation for the presentation of financial information continues to be a significant challenge for the Administration.

The Administration continues to explore avenues of producing this information for tax purposes in an efficient manner.

Overseas tax authorities

LBIE historically has had a taxable presence by way of branches in various jurisdictions.

Overseas tax authorities have challenged the tax filing positions on a number of the branches. It continues to be a challenge to defend these positions as the authorities have different approaches, attitudes, strategies and agendas to tax audits.

Section 8

Statutory and other information

Section 8.1 Statutory information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court –case 7942 of 2008
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	25 Bank Street, London E14 5LE
Company directors:	Mr WT John, Mr PR Sherratt, Mr JM Isaacs, Mr R Magnoni, Mr IM Jameson, Mr AJ Rush, Mr JP Phizackerley, Mr A Wright, Mr D Gibb
Company secretary:	Ms M Smith
Shareholdings held by the directors and secretary:	None of the directors own shares in LBIE
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	SA Pearson, AV Lomas, DY Schwarzmans & MJA Jervis, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
Details of any extensions for the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2011.
Proposed end of the Administration:	The Administrators are not yet in a position to determine the most likely exit route from the Administration.
Estimated dividend for unsecured creditors:	We are unable to provide an estimate at this time due to material uncertainties regarding the quantum of asset recoveries and the level of unsecured creditors' claims.
Estimated values of the prescribed part and LBIE's net property:	It is estimated that the value of the prescribed part will be £600,000, which will be met in full. The estimated value of LBIE's net property is uncertain.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Such an application is considered unlikely.
The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking.

Section 8.2 Extension of the Administration

Application to Court

Under paragraph 76 of Schedule B1 of the IA86, the appointment of an administrator ceases to have effect after 12 months from the appointment date.

On 28 July 2009, the Administrators made an Application to the UK High Court of Justice and were granted an Order that LBIE's Administration be extended to 30 November 2011.

Reasons in support of the Application

In light of the unprecedented size and complexity of LBIE, the Administrators considered that there were likely to be many issues and problems in the Administration that are yet to be resolved.

Further, due to LBIE's large and structurally complex nature, the Administrators have not been able to finalise an assessment of the tax position of the UK Lehman Group, a task which has been further hindered by the fact that UK Lehman Group's tax affairs have not been settled for several years leading up to their Administrations. Given the uncertainty that surrounded the tax affairs, it was considered imperative that the tax group structure for the Lehman Group remain intact to avoid any potential detrimental impact for creditors.

The Administrators are still considering the most appropriate distribution mechanism for unsecured creditors and exit route of LBIE from Administration.

The Administrators also considered that there would be no prejudice to LBIE's creditors if LBIE remained in Administration. Accordingly, it was in the Administrators' view that it was in the best interest of creditors of LBIE for the Administrators' term of office be extended.

There is no limit on how long the Administration can be extended for and how many times an administrator can apply to Court.

Whilst the Administrators are mindful of their duties to the Court to bring the Appointment to an end where the purpose of Administration has been achieved, the Administrators may seek further extensions in future.

Section 8.3 Statement of Affairs

As creditors may be aware, the Administrators granted an extension to the directors of LBIE in which to prepare a SoA due to the enormity of the task.

In anticipation of receiving LBIE's SoA from Mr Dominic Gibb, one of the directors of LBIE, the Administrators sought an Order from the UK High Court to limit the disclosure of information of LBIE's SoA in accordance with Rule 2.30 of the Rules. The Order was sought so as to permit the names of individual creditors and details of LBIE's estimated liabilities to individual creditors contained in the SoA to be redacted.

The Administrators believed that the conduct of LBIE's Administration would be prejudiced if the SoA were to contain details of the identity of LBIE's creditors and the estimated values of creditors' claims on the basis that:

- LBIE is subject to wide-ranging duties of confidentiality, particularly in relation to its regulated business, which could be breached if certain details of creditors and their claims were to be made public;
- Valuation of the claims between LBIE and its counterparties with any degree of certainty is extremely problematic. There is a risk that the estimated values of creditors' claims set out in the SoA will be substantially different from:
 - The values that individual creditors may expect to see, based on the counterparty's own assessment of its position; and
 - The true values which will be established in due course. Indeed, it is possible that as a result of the difficulties in valuation, some counterparties listed as creditors, could turn out to be debtors. Disclosing the names of creditors and valuations of their claims could be materially misleading.
- There is a concern in the financial markets that the fact that a counterparty is recorded as a creditor of LBIE could adversely impact upon its businesses, particularly if the SoA discloses estimated values of its claim against LBIE.
- In light of the above issues, the Administrators will continue to exercise caution in disclosing identity of counterparties throughout the Administration.
- Creditors can obtain a copy of LBIE's SoA, in its limited form at www.pwc.co.uk/lehman.

Section 8.4 Administrators' Remuneration

Background

Creditors should refer to the April 2009 progress report for detailed information regarding the statutory framework for the approval of the Administrators' remuneration and the review process undertaken by the Committee.

A comprehensive disclosure of information is provided to the Committee in accordance with Statement of Insolvency Practice No. 9 ("SIP 9").

Resolutions of the Creditors' Committee

The Committee has approved remuneration of £76,885,431 for the period 15 March 2009 to 14 September 2009. Time costs for the period amount to £75,960,003, which comprises of 251,495 hours at an average hourly rate of £302. Further details of these costs are set out in the tables on the following pages. To 14 September 2009, total Administrators' remuneration approved is £154,118,804.

Included in the above remuneration approval amount is £925,428 which relates to adjustments for exchange rates and charge out rates and Category 2 disbursements for the period to 14 September 2009. Category 2 disbursements are costs which include elements of shared or allocated disbursements including costs such as document storage and specialist copying and printing.

Analysis of time costs

There has been a general downward trend in the average hourly charge out rates for PwC partners and staff deployed on LBIE as the ratio of less senior staff to more senior staff has increased. The effectiveness of the delegation to Lehman staff and less senior PwC staff is illustrated in the table below. Whilst the frequent review of organisational structure, operations and essential Workstreams has increased efficiency, the essential level of oversight by PwC partners and directors necessarily continues.

	Average hourly rate
Period to 14 March 2009	£329
Period to 14 September 2009	£302

The deployment of the Administrators' teams is described in detail in this report. By way of a summary, significant amount of resource continues to be deployed in:

- **Client Assets and Client Money** – pursuing the return of Trust Property to clients;
- **Counterparties** – progressing settlement with market counterparties;
- **Terminations and Valuations** – supporting the above teams;
- **Intercompany** – preparing numerous claims against Affiliates, including LBHI; and
- **LBL costs** – primarily IT, infrastructure and property management, and staff.

Relevant references

The Administrators' costs to date should be referenced to:

- The significant progress achieved to date, particularly the recovery and control of c.\$40bn in cash and securities;
- Development of the framework for the return of Client Assets, including the Client Asset Scheme and the formulation of a fallback position;
- The progression of settlement with the larger and more complex Counterparties;
- Gross claims of \$118bn filed by LBIE against Affiliate Lehman entities in 8 jurisdictions and further c.\$90bn guarantee claims will be lodged imminently;
- The complexity of managing an enterprise which still has over 440 employees and contractors with active operations in many countries; and
- The relative seniority of resource required to tackle the complex technical and relationship issues critical to the optimal resolution of positions.

Clients that are claiming the return of Client Assets should note that costs in relation to the return of Client Assets are outlined in the key terms of the Client Asset Scheme document which can be found on www.pwc.co.uk/lehman.

LBIE intends to withhold from distributions an amount relating to costs associated with the conduct and operation of the asset return process.

Additional analysis of the Administrators' remuneration

The table below provides an analysis of the total hours and cost by grade for remuneration resolutions approved from 15 March 2009 to date.

Grade	Hours	£ 000's
Partner	11,002	7,004
Director	14,521	7,892
Senior Manager	46,800	17,669
Manager	56,658	18,074
Senior Associate	76,200	18,771
Associate	46,314	6,550
Total	251,495	75,960

The following table provides an analysis of the total hours and costs incurred.

		Hours	£ 000's
COO	Operations	5,095	1,938
Activities	House Positions	10,969	3,773
	Counterparties	18,223	6,712
	Trust Property	52,415	14,321
	Treasury	11,753	3,622
	Reporting	9,178	3,403
Cross Functional Workstreams	Custodians	7,299	2,502
	Failed Trades	6,321	2,092
	Corporate Events	3,900	1,209
	Terminations and Valuations	20,753	5,138
	Derivative Exchanges	2,131	674
	Financing	6,734	2,737
	Branches & Subsidiaries	10,284	3,432
Functions	Tax	1,983	1,067
	Regulatory & Compliance	2,817	959
	LBL Recharges	81,640	22,381
Total		251,495	75,960

The Committees' role includes approval of the following recharges from LBL

LBL Recharges	Hours	£ 000's
Estate Accounting	3,377	1,076
Employee Issues	3,738	1,662
Information Technology	51,057	12,405
Intercompany	4,993	1,590
Interdependencies	4,419	1,465
Media and Communications	754	245
Property Issues	6,790	2,247
Group Services Management	6,242	1,572
Group Liquidations	270	119
Total	81,640	22,381

Appendices

Appendix A Receipts and payments to 14 September 2009

House receipts and payments from 15 September 2008 to 14 September 2009

	Note	Total (US \$ Equivalent) at 14 September 2009 (millions)	Total (US \$ Equivalent) at 14 March 2009 (millions)	Movement (US \$ Equivalent) (millions)
Receipts				
Counterparties	1	6,472	3,902	2,570
Depot securities		2,472*	838	1,634**
Other	2	940	383	557
Total Receipts for period		9,884	5,123	4,761
Payments				
Payroll and employee costs	3	(263)	(163)	(100)
Administrators' remuneration	4	(238)	(101)	(137)
Building and occupancy costs	5	(97)	(48)	(49)
Legal costs	6	(112)	(47)	(65)
Other	7	(310)	(194)	(116)
Total payments for period		(1,020)	(553)	(467)
Net position		8,864	4,570	4,294
Bank balances				
Bank of England	1	788		(787)
Other institutions/investments		8,863	3,782	5,081
Total Balance		8,864*	4,570	4,294**

* excludes \$317.9m in short-term investments transferred from the House depot

** excludes long term securities of \$664m held as at 14 April 2009

Client receipts and payments from 15 September 2008 to 14 September 2009

	Total (US \$ Equivalent) at 14 September 2009 (millions)	Total (US \$ Equivalent) at 14 March 2009 (millions)	Movement (US \$ Equivalent) (millions)
Receipts			
Pre-Administration client monies	932	876	56
Redemptions, coupons, dividends & investment income	2,619	2,101	518
Total Receipts for period	3,551	2,977	574
Payments			
Transfers to clients	(1,052)	(801)	(251)
Net position	2,499	2,176	323
Bank balances			
Bank of England	946	1,414	(468)
Other institutions/investments	1,553	762	791
Total Balance	2,499	2,176	323

Notes to Receipts and Payments accounts

General

As previously reported, the transactions within the LBIE estate are reported to creditors on a cash receipts and payments basis in accordance with the IA86 and the Rules. The statements in this section reflect transactions in cleared funds in accounts established and controlled by the Administrators.

We continue to hold separate accounts for handling realisations from House assets and Client Assets.

Realisations are held in a number of currencies and for the purpose of reporting, we have aggregated the receipts and payments account into a single currency, US Dollars. The table below shows the breakdown of the House receipts and payments and balances of funds in hand at 14 September 2009 in the three main currencies and other small currency balances are translated in US dollar equivalent (USD).

	GBP (£ mil)	EUR (€ mil)	USD (\$ mil)	Various currencies* (\$ mil)
Receipts	807.6	3,772.3	2,675.6	347.8
Payments	(448.0)	(51.8)	(151.6)	(4.7)
Interco transfers	17.5	(22.3)	273.5	(312.7)
Net position	377.1	3,698.2	2,797.5	30.4

* USD equivalent

1. Counterparties

Comprises – Street and Financing, Prime Brokerage, Live OTC derivatives and Derivative Exchanges recoveries. See Section 4.1.

2. Other receipts

Includes the following:

- \$294m recovered from pre-Administration bank accounts;
- \$274m in receipts where title is being determined. It is possible these sums will be transferred to the Client Account in due course;
- \$100m loan now repaid in full;

- \$106m recovered from overseas branches. These will be mapped to counterparty balances shortly;
- Interest received; and
- Various recharge receipts from Nomura and LBHI under TSAs and receipts received on behalf of UK Lehman Group companies.

3. Payroll and employee costs

Relates to payroll costs of LBIE staff in the period and includes taxes and national insurance costs but excludes retention bonus for 2008. This amount also includes payment of salaries and costs for the month of September 2008 for c.5,500 staff.

The activities of the Human Resources area is detailed in Section 7.5.

4. Administrators' remuneration

Payments include remuneration and expenses in accordance with the Rules and SIP 9 detailed in Section 8.4.

5. Building and occupancy costs

This reflects LBIE's share of the occupancy and infrastructure costs in accordance with the existing pre-Administration cost recharge regime between LBIE and LBL.

The Administrators continue to reduce the building and occupancy costs through implementation of costs reduction initiatives detailed in Section 7.4.

6. Legal costs

Includes costs of legal advisors and counsel in providing advice with regard to various complex issues across the Administration.

The areas of Client Assets and Client Money continue to incur a significant amount of legal costs, specifically in respect of the Client Money applications and hearings and the Client Asset Scheme.

7. Other costs

Included in other costs is loan repayment referred to in Note 2, loan and transfers to Lehman Administration companies including LBL and VAT paid for the period.

Appendix B LBIE contact details

General enquiries

enquiries.lehmanbrothers@uk.pwc.com

Front office functions

House Positions	housepositions@lbia-eu.com
Counterparties	counterparties@lbia-eu.com
Trust Property	clientpositionresponses@lbia-eu.com
Treasury	treasury@lbia-eu.com
Reporting	lbiecreditors.lehmanbrothers@uk.pwc.com

Middle office functions

Custodians	custodians@lbia-eu.com
Failed Trades	unsettledtrades@lbia-eu.com
Corporate Events	corporateevents@lbia-eu.com
Terminations & Valuations	uk.terminationnoticesqueries@lbia-eu.com
Derivative Exchanges	derivativesandexchanges@lbia-eu.com
Financing	financingreplies@lbia-eu.com

Appendix C Glossary of terms

Abbreviation	Term	Definition
AAA	AAA	The highest credit rating given by the two main US rating agencies, Standard & Poors and Moody's
Administrators	Joint Administrators	AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are also partners of PricewaterhouseCoopers LLP
Affiliates	Affiliate entities	Various subsidiaries and Affiliates of Lehman Brothers Holdings, Inc
Agency	Agency team	Team which handles LBIE's multiple roles in various structures and loan facilities arranged by LBIE and other Lehman entities
AML	Anti Money Laundering	Regulation that requires financial institutions and other regulated entities to prevent and report money laundering activities in accordance with various UK anti laundering legislation
ART	Asset Realisation Tool	An IT application that provides a single counterparty view that identifies all the exposures to a single counterparty and stores all related counterparty valuations, positions and once all data is available, allows a statement to be prepared
Bankhaus	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
BarCap	Barclays Capital, Inc	Investment banking business of Barclays Bank PLC
BTB	Back-to-back derivatives	Intercompany derivatives side letters which provide market hedges to LBIE
Client	Client estate	Dealings that relate to segregated Client Assets and Client Money for the benefit of clients
Client Asset Scheme	Client Asset Scheme of Arrangement	A framework for the return of Client Assets pursuant to section 895 of the Companies Act 2006
Client Assets	Client Assets	Client securities in which LBIE should have held as at 15 September 2008
Client Information and Claims website	Client Information and Claims website	A database which allows creditors to enter their exposures to LBIE and valuations as well as gain access to confidential communications accessible by a unique user ID and password. Access details can be obtained at www.pwc.co.uk/lehman
Client Information Portal	Client information portal	Secure database where LBIE clients can access information about their positions with LBIE. The portal is accessible by a unique user ID and password. Access details can be obtained from clientpositionresponses@lbia-eu.com

Abbreviation	Term	Definition
Client Monies	Client Monies	Client cash balances managed by LBIE pursuant to the UK FSA's Client Money Rules as at 15 September 2008
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the UK Insolvency Act 1986
COO	Chief Operating Officers	Are responsible for managing the operations of the organisation, allocating resources and supporting the other teams within the Operating Model
DTC	The Depository Trust Company	US custodian which provides securities movements, settlement for institutional traders and money market instruments
FSA	Financial Services Authority	Regulator of all providers of financial services in the UK
German Depositary Protection Fund	German Depositary Protection Fund	German fund which fully secures the deposits of customers at private commercial banks, up to a specified limit
Global Trader	Global trader case	Judgement handed down by the UK High Court on 24 March 2009 in the matter of Global Trader Europe Limited (in Liquidation) v A Crawford Brunt & Ors [2009] EWHC 602
GPA	Group Payment Arrangement	Allows groups of companies to make joint payments of corporation tax
HMRC	Her Majesty's Revenue and Customs	Organisation of the British Government primarily responsible for the collection of taxes
House	House estate	Dealings that relate to LBIE's general unsecured estate
IA86	Insolvency Act 1986	UK statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
ISDA	International Swaps and Derivatives Association	Global trade association for OTC derivatives, and maintainers of the industry-standard ISDA documentation.
LB Lux	Lehman Brothers (Luxembourg) SA	Affiliate entity subject to insolvency proceedings in Luxembourg
LBCCA	Lehman Brothers Commercial Corporation Asia Limited	Affiliate entity subject to insolvency proceedings in Hong Kong
LBF	Lehman Brothers Finance SA	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings, Inc	Ultimate parent of the Lehman Group, incorporated in the US and subject to Chapter 11 bankruptcy protection on 15 September 2008
LBI	Lehman Brothers, Inc	US broker dealer affiliate entity, incorporated in the US which entered SIPA trusteeship on 19 September 2008

Abbreviation	Term	Definition
LBIE (also referred to as the Company)	Lehman Brothers International (Europe) – In Administration	AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales
LBJ	Lehman Brothers Japan KK	Affiliate entity subject to insolvency proceedings in Japan
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies, also in Administration
LBSF	Lehman Brothers Special Financing, Inc	Affiliate entity subject to insolvency proceedings in the US
Lehman Administration Companies	Lehman Administration Companies	UK Lehman entities in Administration
Lehman Group	Lehman Group	Global Lehman Brothers group of companies
MI	Management information	Internal management information provided to the Administrators and MT to assist lead, monitor and control progress of LBIE
MOD	Manufactured overseas dividend	Any payment made for the transfer of overseas securities, which is representative of a dividend or interest on overseas securities
MoU	Memorandum of Understanding	Document which sets out the guiding principles that LBIE will take to progress and agree intercompany balances with Affiliates
MT	Management Team	Leads of each of the specialist LBIE teams, comprising of the Administrators, PricewaterhouseCoopers LLP partners and various senior Lehman personnel
MTM	Mark-to-market	Recording the price or value of a security, portfolio, or account at current market value
Nomura	Nomura Holdings, Inc	An investment and financial services business. LBIE's equities business was acquired by Nomura shortly after the Administrators' appointment
Operating Model	LBIE Operating Model	Management framework based on LBIE's activities in the Administration structured to assist in meeting the objectives of the Administration
OTC	Over the counter	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
QMS	Query Management System	The system established by the Administrators to manage and track third party queries

Abbreviation	Term	Definition
RASCALS	Regulation and Administration of Safe Custody and Local Settlement	A process that involved the making of accounting entries in the books and records of LBIE and Affiliates to record the existence of repo arrangements between various Affiliate entities
Rules	Insolvency Rules 1986	UK statutory rules that provides the legal platform for matters relating to personal and corporate insolvency in the UK
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, inter alia, administrators
SIPA	Securities Investor Protection Act	US Bankruptcy Code that provides for a stockbroker liquidation proceeding
SIPC	Securities Investor Protection Corporation	A US non-profit corporation established by US government which insures securities and cash in customer accounts up to \$500,000 (up to \$100,000 on cash) in the event of the brokerage bankruptcy
SoA	Statement of Affairs ("SoA")	Statutory document which company directors are bound to submit to the insolvency office holders, in accordance with the IA86 which sets out the financial position of a company as at the date of Administration
SPT	Security Pricing Tool	Automated system for the pricing of securities
Street	Street counterparties	Team which manages dealings with third party counterparties consisting of Asset Managers, Custodians, Pension Funds, Corporates, Banks, and other Non-Banking Financial Institutions
SWG	Scheme Working Group	Formal working group comprising of members of the Committee who are assisting in setting out the framework for the return of Client Assets
Trust estate	Trust estate	Refers to both Client Assets and Client Money
Trust Property	Trust Property	Refers to both Client Assets and Client Money
TSA	Transitional Services Agreement	Service agreements between LBIE and BarCap or Nomura for the provision of certain services
TUPE	Transfer of Undertakings (Protection of Employment) Regulations	UK law preserving employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer
Unsecured Scheme	Unsecured creditors' Scheme of Arrangement	Scheme of Arrangement for unsecured creditors as a mechanism for the distribution of House funds to unsecured creditors. Further consideration will be given to its development over the coming months



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