

Lehman Brothers International (Europe) (In Administration)

Update meetings with MFA / AIMA

New York – 5 August 2009

London – 7 August 2009

Agenda

- Introduction
- Update on status of LBIE Administration
 - Client asset status
 - General estate status
- Overview of the Scheme
- Special provisions
 - Scheme Mechanics
 - Other Scheme Matters
- Scheme milestones and timeline
- Scheme Q & A
- LBI Trustee presentation
- LBI Q&A
- Final remarks

Introduction

Objectives

- ***To provide MFA / AIMA members with an understanding of the proposed LBIE Client Asset Scheme of Arrangement (the “Scheme”)***
- Put the Scheme into the context of the LBIE Administration
- Outline what MFA / AIMA members should do next
- Provide opportunity for Q&A
- Additionally, MFA requested an audience with LBI, who are here today

Introduction

Key messages

- Considerable progress has been made in the Administration generally
- A Scheme has been fully developed with your committee to get assets back to clients
- Addresses absence of UK statutory rules
- The Scheme is a compromise - will facilitate the return of assets
- The Scheme has complex provisions – chance to discuss them
- The alternative is slow and onerous for clients
- Your support for the Scheme is sought

Update on LBIE Administration

Update

Reminder of Administration objectives

- Realise House assets
- Return Trust Property
- Identify unsecured claims

Update

LBIE balance
sheet 15/09/08
book values

- \$628bn gross assets
- \$611bn gross liabilities
- After contractual netting:
 - \$49.5bn assets
 - \$32.6bn liabilities
- c.29.8bn client assets
- c.2.1bn client money

Update

Client assets

- c. \$29.8bn total client assets
- Returned \$13.1bn (30 cases) to 24/7/09
- Remaining \$16.7bn (1,281 cases):
 - \$8.4bn held by our controlled custodians and available
 - \$0.2bn not yet under our control
 - \$1.2bn in redemption proceeds / divis / coupons and available
 - \$6.9bn held by affiliates (incl.\$5.9bn LBI)
- Scheme progressed in line with indicated timeline
- Submitted to UK High Court on jurisdiction to propose Scheme
- Scheme client portfolio fully valued
- Formal processes underway to address material legal uncertainties in Scheme, including: Corporate Events & Client Money boundary

Update

Unsecured estate

- Gross recoveries of \$9.6bn to 24/7/09
- Established processes systematically realising assets
 - Confirm population, Perform valuation, Confirm termination, negotiate settlement
- Developed resolution for over 838,000 pending/ failed trades
- Extensive set-off rights
- Affiliates asserting claims to LBIE controlled assets
- Stabilised employee environment
- IT infrastructure stable
- Practical dealings with affiliates
- Creditor claims being collated
- No bar date for claims at this time

Update

Cash position

- Recovered cash of \$13.1bn (gross)
- \$11.4bn (net) on hand at 24 July 2009
 - \$8.8bn House; \$2.6bn client
- Includes c.\$0.9bn pre-admin client money recovered
- Returned c.\$0.8bn cash to clients
- Comprehensive funds management framework implemented

Update

Inventory at custodians

		Valuation bn (\$)	
		March 09	July 09
	Returned to clients	11.5	13.1
	Assets sold	1.4	2.1
	Redemptions ***	-	1.1
	Assets under direct control	21.8*	12.0**
	Assets frozen by Custodian	2.1*	2.0**
	Held by affiliates	<u>7.6*</u>	<u>8.9*</u>
	Totals	44.4	39.2

*At 15/09/08 book value

** At 30/6/09 value

*** excludes \$0.8bn returned to clients and post admin divis & coupons

- Reduction in “assets under direct control” relates to sales, valuation revisions and redemptions

Update

Client Inventory

		Valuation bn (\$)
		July 09
	Returned to clients	13.1
	Redemptions***	0.6
	Assets under direct control	8.4**
	Assets frozen by Custodian	0.2**
	Held by affiliates	<u>6.9*</u>
	Total	29.2

* At 15/9/08 value

** At 30/6/09 value

*** excludes \$0.8bn returned to clients and \$0.6bn divis & coupons

- Estimated client asset shortfall in controlled depots of c.\$0.3bn (excluding any LBI / LBJ shortfalls)

Update

Client Assets – LBI custodied

- Omnibus client claims lodged with affiliates (Client & House)
- LBI status:
 - c.4.700 stock lines claims for 371 entities. 95% reconciled LBI / LBIE at 12 Sept.
 - LBIE provided further data to LBI on balancing lines
 - An estimated 3,700 stock lines moved in the records between 12 Sept. & 19 Sept.
 - High levels of cooperation and sharing of data to progress reconciliation
 - LBIE has received no stock / cash post admin from LBI.
 - LBI preparing account of movements
 - LBI asset position to be discussed by trustee

Update

Client Monies

- Various applications made by Administrators to UK High Court
 - addressing issues relevant to LBIE to expedite the return of Client Money
- 6 respondents been appointed by Court (in addition to 3 affiliates)
 - Will forward arguments on behalf of class of clients or creditors
- 3 classes of clients to determine rights:
 - Segregated client money
 - Unsegregated client money
 - General LBIE unsecured estate
- Substantive hearings in Oct. / Nov. 2009
 - outcome will determine timing of future interim Client Monies distribution
 - Prospect of various appeals / ECJ

Update

Intercompany relationships

- Significant “noise” regarding affiliates
- \$77bn claimed from 15 affiliates to date
- Many aspects to each relationship:
 - Securities depot operation
 - Trading
 - Guarantees
 - Infrastructure dependencies
- Generic approach inappropriate
- LBIE approach focused on affiliate specific issues
- Extensive dialogue with key affiliates
- LBJ asset return complexities
- Process of reconciling claims progressing

Update

Reporting

- H1 2009 been a period of material progress
- Formal statutory report to creditors to be issued in Oct 2009

Rationale for Scheme

- Very extensive resources committed to dealing with client assets
- Majority of client claims now reconciled to records
- Despite efforts only 30 clients have recovered assets from LBIE
- Returns to date encumbered by indemnities and credit support
- Returning assets increasingly challenging
- Scheme addresses these issues
- **In the absence of the scheme it will take some years to return all clients assets**

Proposed Client Assets Scheme

This section is intended to provide an illustration of certain elements of the proposed Scheme. It is not a comprehensive description of the scheme or the definitions therein. All affected creditors will be provided with a copy of the Scheme in due course.

Proposed Client Assets Scheme

Outline

- Complex and innovative Scheme developed
- Objective is to return assets
- “Mini Explanatory Statement” released on 15 July:
 - Outlined operation of Scheme
 - Introduced various concepts
- Final scheme & explanatory statement likely to be > 300 pages
- Emphasis today on “special” provisions in impact on clients
- **No substitute for reading of Scheme in due course**

Proposed Client Assets Scheme

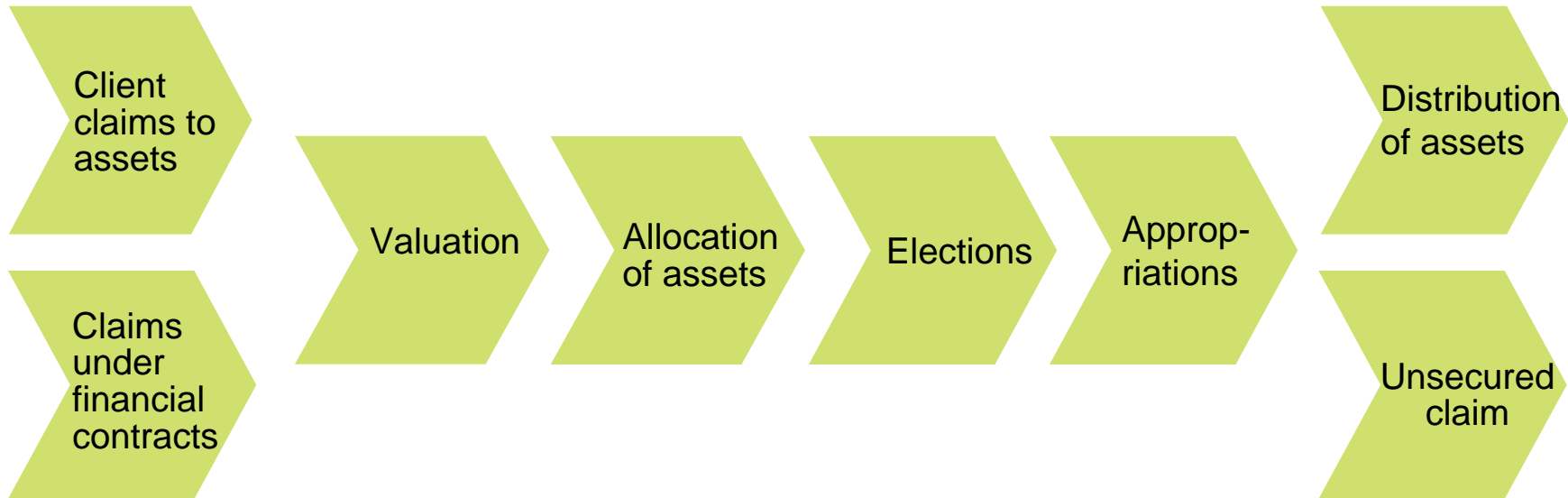
Overview of process

- Formal contract
- Asset pools created
- Claims compromised
- Assets released to creditors
- Creditors approval and UK Court sanction

Overview of Scheme

Scheme Asset Pools

Scheme Creditors



Special Provisions

Today's focus

Scheme mechanics

- Scheme Assets
- Scheme Creditors
- Claims – Assets & Financial Contracts
- Valuation of claims, liabilities and assets
- Allocations
- Elections
- Appropriations / Distribution / Unsecured claims

Other Scheme matters

- Classes
- Governance
- Timing

What assets are included?

LBIE and Client Assets

Trust Property	Excluded Property			
<ul style="list-style-type: none">• Segregated Assets• Derived Assets• Recovered Assets	<table border="1"><thead><tr><th data-bbox="973 525 1089 1282" rowspan="2">Lien Interests</th><th data-bbox="1089 525 1831 596">Non-Scheme Assets</th></tr></thead><tbody><tr><td data-bbox="1089 596 1831 1282"><ul style="list-style-type: none">• Rehypothecated securities• Converted Assets• Reserved Assets• Returned Assets<ul style="list-style-type: none">- Pre Scheme- Post Scheme• Scheme Appropriated Assets• Pre- Admin Client Money• LBIE owned assets</td></tr></tbody></table>	Lien Interests	Non-Scheme Assets	<ul style="list-style-type: none">• Rehypothecated securities• Converted Assets• Reserved Assets• Returned Assets<ul style="list-style-type: none">- Pre Scheme- Post Scheme• Scheme Appropriated Assets• Pre- Admin Client Money• LBIE owned assets
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Proposed Client Assets Scheme

What is a Scheme Creditor?

- **Creditors with a proprietary interest in Trust Property**
- Generally captures clients under a PB or Custody Agreement
- Terminated PBAs included
- Not already returned (opt-in mechanism – “Acceding Creditors”)
- Not an Excluded Creditor.
- Excludes all Title clients.
- Trades creating a proprietary interest must have settled
- “Opt out” mechanism
- All positions to be crystallised and determined

Proposed Client Assets Scheme

How are the claims and assets valued?

Claims

- Primarily Contractual Valuation Methodology- generally creditors contractual valuation
- Alternative:
 - Agreed Valuation
 - Fallback Valuation

Assets / Shorts

- Overriding Valuation Provisions
 - Longs at distribution date
 - Short and Rehypothesized at 15 Sept. Post 15/9 divis excluded
- Dispute resolution mechanism for claims and asset valuations

Proposed Client Assets Scheme

How will assets be allocated?

- Allocation by individual stock line
- 3 defined Asset Pools:
 1. Custody Securities and related Derived Assets
 2. Non-Custody Securities and related Derived Assets
 3. Affected Asset Pool (eg LBI)
- For 1&2 if shortfalls exist – stock allocations pro-rata
- For 3 shortfall is shared by all clients in Affected Asset Pool
- Asset Shortfall Claim = unsecured claim
 - Valued at date of Last Allocation (or time of Administration)
 - Reduced by distributions

Proposed Client Assets Scheme

Affected Assets Pools - LBI

- LBI subject to SIPA proceedings
- Customer Property returned Pro-rata to Customer Claims
- Single Pool for all Securities Customers, including LBIE clients
- LBIE liquidate within max. 6 months
- Allocation to Scheme Creditors with claims in the Affected Asset Pool
- Account for any direct LBI distributions to client
- Reserves by LBI
- Retentions by LBI for liabilities to affiliates
- LBI values Customer Claims as at 19 September 2008
- Derived Assets treatment presently uncertain
- Scheme is entirely independent of LBI liquidation process
- “Protocol” being developed between LBIE & LBI

Proposed Client Assets Scheme

What elections may clients make?

- 1. Collateralisation Election:** Enables client to apply client money claims to discharge liabilities to LBIE
 - Pre-Administration Client Money Claim
 - Limited to Net Financial Liability
 - If no Election then Client Money Shortfall is an unsecured claim

- 2. Appropriation Deferral Election:** Allows client to use asset shortfall claims to discharge liabilities to LBIE
 - at time of first Allocation only
 - Deferral Cash Amount paid as collateral
 - Asset Shortfall claim applied first to set-off Net Financial Liability (only) on Last Allocation

Proposed Client Assets Scheme

How will assets be appropriated and distributed?

- Settle client liabilities to LBIE and affiliates – i.e:
 - Liability for Costs
 - Net Financial Liability
 - Non-Financial Contract Liabilities
 - Retention Amounts
- Client always has option to discharge liabilities by cash
- Balance of assets distributed to client

Other Scheme Matters

Proposed Client Assets Scheme

Scheme Creditor Voting Rights

- Majority in number representing > 75% by value of each class
- Voted by class
- Lesser of:
 - Voting Assets Claim (aggregate claims to Trust Property)
 - Voting Equity (Asset Claim adjusted by Net Financial Position, Rehypothecated and Shorts)
- Minimum value of \$1
 - Negative Voting Equity
 - “Flat Accounts” (all assets rehypothecated)
- Currency US Dollar

Proposed Client Assets Scheme

Scheme Creditor Classes

The currently proposed **3 classes** of scheme creditors are:

- Open Contract Scheme Creditors
 - Not terminated by 14 July 2009
 - Financial Contract with outstanding transactions
 - Contractual rights affected (mandatory Termination Date)
- Pure Custody only Scheme Creditors
 - No other Financial positions
 - No Non-Custody Asset Claims
 - Limited application of Scheme terms
- General Creditors
 - All other Scheme Creditors
 - Principally creditors with Terminated Financial Contracts

Proposed Client Assets Scheme

Voting Valuation Methodology

- Proxy for creditors claims at latest practical date
- Asset Claim, Rehypothecated Security and Short Security at 30 June 2009 (generally without Derived Assets)
 - Corporate action only taken into account if impacts value of security.
 - Corporate events excluded
- Trade date basis
- Underminated Financial Contracts (notional termination 30 June 2009)
- Pre-Administration Client Money not included
- Provisional Notification including all above detail (Sept 09) – opportunity to review
- Chairman's Discretion
- **Without prejudice to valuation for ultimate distribution**

Proposed Client Assets Scheme

Scheme Committee

- 3 to 5 members
- Majority must be Scheme Creditors
- Must include a general unsecured creditor
- Vacancy filled by Supervisors nomination
- Members must be a creditor at all times
- Meet as required, at least every 6 months
- Confidential information for use of performing duties under Scheme
- Reimbursed for expenses and indemnity from LBIE

Proposed Client Assets Scheme

Our target timeline is:

Provisional Timeline

Jurisdiction Hearing Judgement	Aug 2009
“Creditor issues” letter	Early Sept
Court filing and publication of Scheme and Explanatory Statement	Sept
Provisional notification of voting rights	Early Sept
Court convening hearing	End Sept
Formal meeting notice and final documents	Oct
Creditors’ Meeting	Oct / Nov
Court Sanction hearing	Nov
Contract Termination date	Oct / Nov
Claim Bar date	Dec / Jan
Initial distributions	Q1 2010

Scheme Q&A

LBI Trustee

In summary

- Scheme addresses the fundamental issues
- We and your committee are unanimous in recommending the Scheme concept to you
- This is a fair compromise
- **In the absence of the scheme it will take some years to return all clients assets**