

Applicants
S A Pearson
Second Statement
"SAP2"
25 February 2009

IN THE HIGH COURT OF JUSTICE

Claim No. 7942 of 2008

CHANCERY DIVISION

COMPANIES COURT

**IN THE MATTER OF LEHMAN BROTHERS INTERNATIONAL
(EUROPE) (in administration)**

AND IN THE MATTER OF THE INSOLVENCY ACT 1986

EXHIBIT "SAP2"

This is the paginated bundle of copy documents marked "SAP2" referred to in the witness statement of STEVEN ANTHONY PEARSON dated the 25th day of February 2009

Signed:.....

STEVEN ANTHONY PEARSON

25 February 2009

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28 October 2008

Our ref: AVL/SAP/LBIE/961
Lehman Regulatory Role reference:
Your User ID:
Your Password:

Dear Sir/Madam

Lehman Brothers International (Europe) - in Administration ("LBIE" or the "Company")

This letter is addressed to all known counterparties who might be creditors of the Company and to whom notice of the appointment of Administrators to LBIE was sent.

Enclosed with this letter is a document entitled "Lehman Brothers International (Europe) - in Administration, Joint Administrators' Proposals for Achieving the Purpose of Administration". This document provides an account of the steps that have been taken in the Administration to date, together with the Administrators' proposals, to be put to a meeting of creditors on 14 November 2008 and to give you formal notice of that meeting (Form 2.20B also enclosed).

The enclosed document provides an overview of the different workstreams that the Administrators have established and the progress made to date. At this stage we have not included any detailed financial information as work is still underway in preparing the directors' Statement of Affairs and certain financial data is awaited from third parties. Any financial information risks being materially incomplete and, as a result, potentially misleading in gaining an understanding of the assets and liabilities of the Company.

We expect to be able to present certain summary financial information at the creditors' meeting and will make this available on the PwC website (<http://www.pwc.co.uk>) immediately following the meeting, ensuring that any creditors who do not attend on the day have access to this information.

We are aware of the major impact that the Administration of LBIE has had on many of its clients and counterparties, especially with regard to the resulting uncertainty that it has caused. All the information necessary to estimate the value of a counterparty's position with LBIE is not yet readily available to us, neither is all the information that would enable us to release client monies and securities. A number of significant, complex and unique issues arising from the bankruptcy filing of Lehman Brothers Holdings Inc. and the insolvency of LBIE and many of its fellow Lehman Group companies have given rise to this situation.

Some of the complexity of the Administration tasks include:

- Protecting and realising LBIE's economic interest in, and managing the risks arising from, the wide range of securities and derivative transactions LBIE was party to. This involves, inter alia, quantifying the impact of contractual terminations and failed trades.
- Requesting, receiving and reconciling the significant volume of data arising from hundreds of thousands of third party transactions. These transactions were originated from the wide range of business activities undertaken across multiple jurisdictions, and a number of different systems.
- Interpreting and determining the impact of multiple contractual arrangements on a client and counterparty specific basis. Due regard is also needed as to arrangements with Lehman Group companies as a whole.
- Understanding, quantifying and agreeing the impact of third party actions (including regulators, exchanges, clearing houses, custodians, agent banks, clients and counterparties) on asset realisation and creditor claims.
- Determining the impact of historical dealings with other Lehman group companies, a number of which are now subject to local insolvency proceedings, each subject to local rules and objectives.
- Identifying, locating, reconciling and administering potential trust property to client asset claims.

The combination of these and other tasks, together with the legal duties and responsibilities of the Administrators to maximise the realisations in the estate and avoid preferring any creditor or group of creditors, has inevitably led to a material delay in the Administrators being able to respond substantively to counterparty enquiries.

At the 14 November 2008 creditors' meeting we will provide further and fuller explanation of how the Administration generally, and these matters specifically, are being managed.

What steps should you be taking now?

All creditors will be bound by the Administrators' proposals if they are approved at the creditors' meeting by the requisite majority. It is therefore important that you read this document carefully. You may suggest modifications that you wish us to consider for incorporation into the proposals.

It is expected that a creditors' committee will be formed and that many creditors may wish to be a member of it, although the relevant UK legislation provides that a maximum of five members only can be appointed. The Administrators would be grateful to receive nominations well in advance of the meeting and in any event by 5 pm (GMT) on 11 November 2008. Creditors should make such nominations for membership by completing the appropriate part of the enclosed proxy form (Form 8.2 and guidance note on how to complete your proxy enclosed). Please return your proxy form to the above address or by facsimile on +44 (0) 20 7212 6598. Due to the complex nature of the claims, we do not expect to be able to determine the result of the voting for the membership of the creditors' committee on the day of the meeting, but creditors will be notified of the result in writing soon after the meeting.

As a creditor you can attend the creditors' meeting either in person or by submitting a proxy. In order to vote (either in person or by proxy) we request that written details of your claim be

submitted to us by no later than midnight (GMT) on 12 November 2008 via the LBIE creditors' website - <https://dm.pwc.com/LBIECreditors>.

You are not obliged to attend the meeting, or submit a proxy if you do not wish to vote, and you will not prejudice your claim and entitlement to a dividend, should there be one, if you do not attend or vote. If you do not attend, you will be able to access any financial information that is provided to the meeting immediately thereafter, on the PwC website (<http://www.pwc.co.uk>).

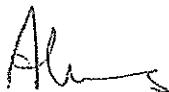
Registration for attendees will begin at 10am on the day of the meeting. The meeting will start promptly at 11am, so please ensure that you allow sufficient time to register.

Submission of your claim

Instructions on how to submit your claim on the LBIE Counterparty web site are enclosed. You are required to enter the User ID and password information given in the heading of this letter onto the website in order to lodge your claim. A further user guide is available on the website to assist you.

We understand that due to the complexities detailed earlier in this letter that you may not know your net position at this stage. Please note that submitting your unsecured claim on the website at this stage is for voting purposes at the creditors' meeting only and we would therefore ask that you submit your claim based on the information that you have available and list your assumptions in the space provided. As a creditors you will have further opportunity to review your claim in due course once you are fully furnished with the information to assist you in completing your claim. Should you have any further information after the meeting regarding your claim against LBIE, please contact us through the website email address and we will either update your claim or allow you further access to update and resubmit your claim.

Yours faithfully
For and on behalf of the Company



AV Lomas
Joint Administrator

Enclosures:

Joint Administrators' proposals for achieving the purpose of the Administration
Form 2.20B (notification of initial creditors' meeting)
Instructions for counterparty claim submission
Form 8.2 (proxy form)
Form 8.2(a) (information on how to complete your proxy)

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

Notice of a meeting of creditors

Name of Company Lehman Brothers International (Europe)	Company Number 02538254
In the High Court of Justice, Chancery Division, Companies Court (full name of court)	Court case number 7942 of 2008

(a) Insert full name(s)
and address(es) of the
administrator(s)

Notice is hereby given by (a) AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis of

PricewaterhouseCoopers LLP
Plumtree Court
London
EC4A 4HT

(b) Insert full name and
address of registered
office of the company

that a meeting of the creditors of (b) Lehman Brothers International (Europe) of 25 Bank Street,
London E14 5LE

(c) Insert details of place
of meeting

is to be held at (c) IndigO2, The O2, Peninsular Square, London SE10 0DX

(d) Insert date and time
of meeting

on (d) 14 November 2008 at 11.00 am

The meeting is:

*Delete as applicable

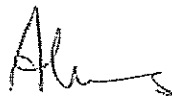
an initial creditors' meeting under paragraph 51 of Schedule B1 to the Insolvency Act 1986 ("the
Schedule");

I invite you to attend the above meeting.

A proxy form is enclosed which should be completed and returned to me by the date of the
meeting if you cannot attend and wish to be represented.

In order to be entitled to vote under Rule 2.38 at the meeting you must give to me, not later than
12.00 hours on the business day before the day fixed for the meeting, details in writing of your
claim.

Signed



AV Lomas
Joint Administrator

Dated 28th October 2008

* Delete as
applicable

A copy of the * proposals is attached

**Rule 8.1 Insolvency Act 1986
Proxy (Administration)**

Notes to help completion of the form

Lehman Brothers International (Europe) – in Administration

Please give full name and address for communication

Name of creditor.....

Address

Please insert name of person (who must be 18 or over) or the "chairman of the meeting" (see note below). If you wish to provide for alternative proxy-holders in the circumstances that your first choice is unable to attend please state the name(s) of the alternatives as well

Name of proxy-holder

1.....

2.....

3.....

Please delete words in brackets if the proxy-holder is only to vote as directed i.e. he has no discretion

I appoint the above person to be my / the creditor's proxy-holder at the meeting of creditors to be held on 14 November 2008, or at any adjournment of that meeting. The proxy-holder is to propose or vote as instructed below [and in respect of any resolution for which no specific instruction is given, may vote or abstain at his/her discretion].

Please tick the appropriate boxes

Voting instructions for resolutions

	In Favour	Against
1. That the Joint Administrators' proposals for achieving the purpose of the Administration' dated 28 October 2008 be adopted.		
2. For the appointment of..... represented by as a member of the creditors' committee.		

This form must be signed

Signature Date

Name in CAPITAL LETTERS

Only to be completed if the creditor has not signed in person

Position with creditor or relationship to creditor or other authority for signature:
.....
.....

Lehman Regulatory Role Reference:

HOW TO COMPLETE YOUR PROXY**Important Information**

Creditors wishing to vote at the meeting must complete and lodge the proxy with the Administrators, unless they are individuals attending the meeting personally or are companies authorising a representative under Section 375 of the Companies Act 1985.

All creditors who wish to vote at the meeting, whether in person, by proxy, or in some other way, must provide details of their claim against the company to PricewaterhouseCoopers LLP by 12 noon on the business day preceding the meeting.

You will find additional notes on the proxy form itself.

Name of Creditor

Insert the name of the person, company or other body owed money.

Address

Insert the creditor's full address (including postcode).

Name of Proxy Holder

If you, or another authorised representative of your company, are attending the meeting then please put your/his/her name in here.

If someone else is attending on your behalf (for example your solicitor), then please state his or her name here. If you wish you may list more than one proxy holder, in case your first choice is unable to attend.

If you are not attending the meeting or sending a representative you may still vote by appointing the chairman as your proxy holder. To do so insert the words "*chairman of the meeting*" in the space for the proxy holder's name. The chairman will be one of the Administrators, or an employee of the Administrators duly authorised to act as chairman.

Voting Instructions for Resolutions

You do not need to give any voting instructions if you are happy for your proxy holder to exercise his or her own discretion on the use of your vote.

Complete section 1 to instruct your proxy-holder how to vote on the acceptance or rejection of the Administrator's proposals. Only complete section 2 if you wish to vote for a specific creditor to be appointed to the creditors' committee, otherwise leave this section blank.

There may be other resolutions proposed at the meeting (eg. to modify the proposals or appoint other creditors to the committee). If you are content for your proxy holder to vote on any such resolution as he or she thinks fit, you need take no further action. If you do not wish your proxy holder to vote on any such resolutions you should delete the words in square brackets in the middle of the form. Please note that if you delete these words without completing section 1 or 2 your proxy holder will not be able to vote at all.

Signature

The proxy must be signed by a duly authorised representative of the creditor, usually a director in the case of a company, and his or her relationship to the creditor should be stated.

Lehman Brothers International (Europe) – in Administration ("LBIE" or the "Company")

Instructions for counterparty claim submission

As explained in the covering letter to the Administrators Proposals document, it is intended that counterparty unsecured creditor claims against LBIE will be submitted to the Administrators by inputting data into a web based collection database.

This site will be launched on or before Monday 3 November 2008 following which date you will be able to submit your claim, which we request be done by no later than midnight on Wednesday 12 November 2008.

To access this database you will need to go to <https://dm.pwc.com/LBIECreditors> and you will need to know the User ID and password of the legal entity for which you are claiming. This information, together with the relevant entity's Lehman Regulatory Role reference number, appears on the covering letter referenced above.

When you first enter the site, a logon screen will appear into which you should enter your User ID and password and press "Login".

This will take you to your claim "Summary Screen" which will contain your contact standing data and a summary of all the components of your unsecured claim against LBIE. If you have any difficulty in logging in, you should immediately send an email to: lbiecreditors.lehmanbrothers@uk.pwc.com. User demand may be high following the launch of the database; however we will endeavour to respond to queries sent to this email address within 24 hours.

Once in the "Summary Screen" only two fields are pre-populated, these being the full legal entity name of the counterparty and its unique Regulatory Role reference number. You cannot edit these fields. **YOU MUST QUOTE THESE DETAILS ON ANY COMMUNICATION YOU SEND TO THE ADMINISTRATORS OR TO LBIE CONCERNING YOUR CLAIM.**

You should insert the details of your preferred contact for dealing with your claim submission and then proceed to enter your claim data under the different types of claim heading listed on the "Summary Screen". This can be accomplished by pressing the relevant "Enter Values" button which will take you to a detailed screen for that category of claim. Once you have completed a page you should press "Save Changes" which will take you back to the "Summary Screen". This page automatically updates to show the part of the claim you have completed.

The Summary Screen has a "Save and Exit" button to enable you to complete your data entry in stages if necessary. All screens contain links to a "User Guide", which provides detailed guidance on how and where the different elements of your claim should be entered into the database. It also includes further general background information and an explanation as to the purpose of this database. Should you experience any problems in entering your data, there will be a link to an email address to which you should direct your queries. Please note that this is a separate mailbox to that which deals with Logon problems only (as referred to above).

You will need to complete all the data entry pages in full, and where you do not have any claim under a category you should enter 0 (zero). You will not be able to submit your claim as complete until all fields have been completed.

There is a free field box on all screens into which you may enter any explanatory comments that you consider to be relevant to your claim or any assumptions that you have made.

When all data entry screens have been completed the "Summary Screen" will show a summary of your total claim and its net balance will be shown towards the bottom of the screen. There is an opportunity to save your data and exit at that stage without submitting your claim, but once your claim details are complete and you wish to submit them, you should press the "Submit Data" button.

This will take you to the "Confirmation" screen where you will be shown a summary of your claim and be asked to confirm the accuracy of the information you have entered. Once you have made the declaration your claim will be fixed in the database for the purpose of voting at the creditors meeting to be held on 14 November 2008 and you will no longer be able to logon or edit your claim. There will be a final opportunity to print the details of your claim as submitted for your own records.

There are a few important points to which you should pay particular attention:-

- Claims should be calculated as at 07.56am 15 September 2008, the time of the Administration Order. Accordingly no claims for interest subsequent to this time should be made.
- This database is for the submission of your claims as against Lehman Brothers International (Europe) (in Administration) only. No claims against any other Lehman Brothers group company should be entered in this database. For these purposes no claims under any cross entity netting agreements should be submitted, but you should please note the existence of any such agreements to which you are a party in the comments fields.
- The value of the claim generated from the information input into this database will be used only for the purposes of calculating votes cast at the creditors meeting to be held on 14 November 2008 (in accordance with Insolvency Rule 2.38(4)). No acknowledgement as to the admissibility or validity of the claim for dividend purposes is given or implied and all rights with regard to the construction of the claim, including, without limitation, the applicability of any netting or rights of set-off or the treatment of collateral are fully reserved.
- Claims should be entered in the database only in US \$. The appropriate currency conversion table to be used for transactional data in other currencies is included in the User Guide in the database.
- Any claims you may have in respect of segregated trust assets should be made separately and should not be included in your unsecured claims that you enter in the database. If you want to make such a trust claim, please refer to http://www.pwc.co.uk/eng/issues/lehman_client_money_assets_151008.html for the appropriate claim documentation and contact details.
- If you do not have valuations or other definitive information on certain aspects of your claim it is acceptable for you to include estimated figures but you should please explain the basis of any estimates or assumptions in the comments fields.

At this stage of the Administration we are seeking to establish a summary of creditors' total claims for the purposes of voting and the database is not currently designed to hold all the detailed data about your claim. Accordingly we are not at this stage seeking copies of supporting agreements or other documentation to validate your claim, so you need not send such information as this at this stage. However, there will be a second phase to the establishment of claims and it is intended that the database will in due course be reopened and expanded to collect more detailed data on your claim.

Finally, you are reminded that we request you submit details of your claim no later than midnight on 12 November 2008 and that you should quote your unique Regulatory Role reference number on every communication that you submit to the Administrators.

Lehman Brothers International (Europe) – In Administration

Joint Administrators' Proposals for Achieving the Purpose of
Administration

28 October 2008

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Section 1: Purpose of this document

Introduction

SA Pearson, DY Schwarzmann, MJA Jervis and I were appointed as Joint Administrators (the "Administrators" or the "Joint Administrators") of Lehman Brothers International (Europe) ("the Company" or "LBIE"), by order of the UK High Court of Justice on 15 September 2008.

The purpose of the Administration is to realise the Company's business and assets in a manner which will result in a more advantageous realisation than would be achieved on a winding up (a formal liquidation, as defined in the Insolvency Act 1986). The powers and duties of the Joint Administrators are set out in the Insolvency Act 1986, as amended by the 2002 Enterprise Act and the related rules. Each of the Joint Administrators of LBIE is a partner in the UK firm of PricewaterhouseCoopers LLP ("PwC") and a licensed Insolvency Practitioner, regulated by the Institute of Chartered Accountants in England and Wales.

This document and its appendix are provided to you in accordance with paragraph 49, Schedule B1 of the Insolvency Act 1986. Within it we set out:

- the background to the Administration, including the events immediately leading up to the appointment of Administrators;
- an overview of the Company's business and structure;
- the manner in which the Company's affairs are being managed, including details of the steps taken to date and the Administrators' proposed actions;
- the Administrators' proposals, in accordance with the Insolvency Act;
- comments on the availability of financial information;
- statutory information regarding the Company; and

- information regarding the meeting of creditors and the creditors' committee.

Creditors' meeting

A creditors' meeting will be held on 14 November 2008 at IndigO2, a meeting facility at The O2, Peninsular Square, London SE10 0DX, to consider the Administrators' proposals and to decide whether a creditors' committee should be formed.

It would be helpful if any creditor wishing to be considered for election to the creditors' committee notifies us of their interest prior to the creditors' meeting, wherever possible, in order that the voting process can be conducted more efficiently on the day.

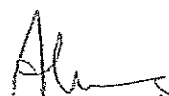
Creditors will be bound by the Administrators' proposals if such proposals are approved at the creditors' meeting by the requisite majority. It is therefore important that you read this document carefully. A creditor is entitled to propose modifications to these proposals for the Administrators' and creditors' consideration.

Immediately following the creditors' meeting, the Administrators will post onto the PwC web site any material information which is disclosed at the meeting and which is not at that time in the public domain.

Future reporting

At six monthly intervals, further reports will be provided to the creditors of LBIE, setting out the progress that has been made in these various matters, together with the Company's receipts and payments for each six monthly period.

Signed:



Anthony Victor Lomas
Joint Administrator
Lehman Brothers International (Europe)

Section 2: The circumstances giving rise to the Administrators' appointment

Background information

Investment banking was at the core of the business of the global Lehman Brothers Group of companies (the "Lehman Group"). Until its recent collapse, the Lehman Group was one of the four biggest investment banks in the United States. It provided financial services to corporations, governments and municipalities, institutional clients and high net worth individuals. The business activities of the Lehman Group were organised in three segments, namely: capital markets, investment banking and investment management. Those segments included businesses in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity.

The Lehman Group's headquarters were in New York, with regional headquarters in London and Tokyo and many offices in North America, Europe, the Middle East, Latin America and the Asia-Pacific region.

The ultimate parent company of the Lehman Group is Lehman Brothers Holdings Inc. ("LBHI"), which is incorporated in the United States.

Events immediately preceding the Administrators' appointment

The Lehman Group operated in a market that depends heavily on investor and market confidence. In the period immediately prior to its insolvency, there was an escalating loss of confidence in the Lehman Group, as evidenced by a significant deterioration in LBHI's share price on the New York Stock Exchange of almost 80 per cent during the week from Friday 5 September 2008 to Friday 12 September 2008.

On Tuesday 9 September 2008, the share price fell 45 per cent following reports that negotiations with the Korean Development Bank, regarding a potential major investment in the Lehman Group, had been put on hold.

The following day, the Lehman Group announced a third quarter loss of US\$3.9 billion.

At the same time, the Lehman Group announced plans to sell a majority stake in its investment management business and to spin-off the majority of its commercial real estate assets into a new, separate public company. These measures failed to restore investor confidence and the share price fell a further 7 per cent on Wednesday 10 September 2008.

Following the close of business that day, Moody's Investors Service, one of the main credit rating agencies, announced that, in the absence of a purchaser for the Lehman Group or its business by Monday 15 September 2008, it intended to downgrade the Lehman Group's credit rating.

Various steps were taken in an attempt to resolve the Lehman Group's situation. We understand that weekend discussions were held in New York with potential investors and purchasers of the Lehman Group's business (or part thereof).

During the afternoon of 14 September 2008, we met with the directors of LBIE in order to consider what steps should be taken in the event that the New York discussions to save the group were to fail.

LBHI managed substantially all of the material cash resources of the Lehman Group centrally. A continuing failure of LBHI to settle obligations on behalf of LBIE at any point in time would result in the insolvency of LBIE, as it would be unable to meet its liabilities as they fell due. On 14 September 2008 the directors of LBIE sought assurances from LBHI that payments due to be made on 15 September 2008 on its behalf would in fact be made by LBHI. The directors also planned how to react in the event that these assurances could no longer be given by LBHI.

At approximately 12.30 am on 15 September 2008, LBIE was informed by LBHI that it would

no longer be in a position to make payments to or for LBIE and other Lehman companies and was preparing to file for Chapter 11 bankruptcy protection in the US.

Overnight, preparations were made by the directors, employees and advisers for a number of the Lehman Group companies in the UK to seek the protection of an administration order and directors of those companies, including LBIE, met and resolved to place those companies into Administration (collectively "the Lehman Administration Companies").

At 7.56 a.m, on 15 September 2008 Administration orders were made in respect of each of the Lehman Administration Companies. Having been appointed as administrators, the Joint Administrators and their teams immediately assumed responsibility for LBIE's affairs and began to pursue the purpose of the appointment.

Later on 15 September 2008, LBHI announced that it had filed for Chapter 11 bankruptcy protection in the US.

Objectives of the Administration

As it was not reasonably practicable to rescue LBIE as a going concern, 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 and derivative positions 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 and return all trust assets to their rightful owners on a systematic basis.

Section 3: An overview of the Company's business and structure

Business Activities

LBIE was LBHI's main European broker-dealer. It provided investment banking services to clients (including corporate customers, institutions, governments, hedge funds and private clients) on a global basis.

LBIE was a global market maker in certain major equity and fixed income products. As part of its market-making activities it was a member of all principal securities and commodities exchanges across Europe and many others across the World.

LBIE had trading, research, structuring and distribution capabilities in equity and fixed income products and used a client-flow business model, which was based on the principal focus of facilitating client transactions in all major global capital markets products and services. LBIE generated client-flow revenues from a full range of clients by:

- advising on and structuring transactions specifically suited to meet client needs;
- serving as a market-maker and / or intermediary in the global marketplace, including having securities and other financial instrument products available to allow clients to adjust their portfolios and risks across different market cycles;
- originating loans for distribution to clients in the securitisation or principals market; and
- acting as an underwriter to clients.

LBIE maintained inventory positions of varying amounts across a broad range of financial instruments and took proprietary trading and principal investment positions.

LBIE's Capital Markets' division carried out primarily institutional client-flow activities, including secondary trading, financing, origination and securitisation, prime brokerage and research activities in fixed income and equity products. These products included a wide range of cash, derivative, secured financing and structured instruments and investments. LBIE was a leading global market-maker in numerous equity and fixed income products, European equities, government and agency securities, money market products, corporate high-grade, high-yield and emerging market securities, mortgage and asset-backed securities, preferred stock, municipal securities, commodities and energy products, bank loans, foreign exchange, financing and derivative products.

LBIE was one of the largest market participants in terms of pan-European listed equities trading volume and maintained a major presence in over-the-counter stocks, large capitalisation stocks, warrants, convertible debentures and preferred issues. The secured financing business managed equity and fixed income matched book activities, supplied secured financing to institutional clients and provided secured funding for their own book inventory of equity and fixed income products. The Company also served as an agent, market-maker and/or intermediary in the global marketplace, including making available securities and other financial instruments and products to clients to adjust their portfolios and risks across different market cycles, enabling clients to buy or sell large positions of securities through block trades and originating loans for distribution to clients through securitizations and/or syndications.

Corporate Functions

LBIE and all other companies in the Lehman Group were supported by a number of corporate support functions, including: Operations, Information Technology, Treasury, Finance, Risk, Compliance, Legal, Regulatory and Human Resources.

These were organised and managed on a global basis with regional or local management providing the appropriate local input. The main role of each function is outlined below.

The corporate functions provide support to LBIE's businesses through the processing of securities transactions arising from multiple business units across a multitude of systems, across multiple geographies. It also included receipt, identification and delivery of funds and securities, safeguarding of clients' securities, risk management, and compliance with regulatory and legal requirements.

Included in corporate functions are technology infrastructure and systems maintenance, information security, business continuity planning, treasury operations, financial reporting and business unit financial support, tax planning and compliance, internal audit, expense management, and other support functions. Records relating to the status of transactions (including unsettled, terminated and failed trades) and the physical location of assets by sub-custodian are managed, reconciled and reported by the corporate functions.

LBIE's businesses and operations rely on the secure processing, storage and transmission of confidential and other information. Substantial investment has historically been made in systems, processing capability and technology to manage and record execution and clearing and risk management. The businesses were (and continue to be) highly dependent on the ability to process, on a daily basis, a large number of often complex transactions across numerous and diverse markets in many currencies. Consequently, LBIE relies heavily on IT systems for financial, accounting, business and settlement systems as well as interfaces to third parties such as banks, custodians and settlement entities/clearing houses.

Extensive protective measures are required for LBIE's computer systems, internet sites, software and networks to protect against vulnerabilities to unauthorised access, computer viruses, denial of service attacks or other events that could have a security or business impact.

These systems and business infrastructure are inextricably linked to the same facilities utilised by other companies in the Lehman Group, and important geographic locations for the maintenance and support of these are both London and New York.

The Administrators only have control over the London facilities. Various other group companies, actively through their respective representatives, claim title to certain intellectual property rights in competition with LBIE, requiring the development of operating protocols and service agreements to govern the basis on which the infrastructure use will be shared going forward.

Section 4: The Administrators' actions to date

4.1 Overview

We set out here a high level summary of the Administrators' activities in the initial weeks.

Following a rapid assessment of the business and its operating structure the Administrators established a number of distinct workstreams – this enabled us to assert control over the Company's complex operations.

The Administrators' activities have been defined by activity area and by three phases. Given the differing nature of these workstreams the elements of each workstream are at different phases at the date of this document.

The three phases are:

Phase I: Control and assimilation

Gaining an understanding of the business and operations of LBIE (we had less than 24 hours access to information and people, before our appointment). Asserting control and formulating the optimal strategy for achieving the purpose of the Administration and creating a stable platform from which to operate.

The immediate challenge faced by the Administrators was gaining an understanding of the Company's business and asserting control over its operations. Having had few dealings with the Company the Administrators were, of course, unfamiliar with its structure, processes and people.

The Administrators immediately called upon the extensive Banking and Capital Markets ("B&CM") practice within PwC and mapped this specialist expertise with our insolvency expertise across the various functional activities of LBIE. This enabled the Administrators to ensure risk was managed and control asserted across the Company.

In the first two weeks of the Administration we:

- formed a large multidisciplinary team from within the PwC global network;
- handled extensive counterparty, employee and media inquiries;
- raised short term finance (\$100 million) to pay salaries and other essential costs;
- implemented retention arrangements for key employees;
- worked with the Bank of England, the FSA and other regulators on risk, compliance and market matters;
- established new processes for collating and managing stakeholder enquiries;
- explored the potential to sell LBIE's businesses and assets;
- completed the sale of the Equities business to Nomura; and
- effected a cost reduction exercise, including over 800 redundancies across LBIE's business areas.

Phase II: Systemisation

Determining how to systemise the processes, controls and disciplines required to enable the protection and orderly realisation of the assets, the agreement of claims against the estate and managing and eventually returning the assets of third parties.

Phase III: Run-off

This is the process of realising and running off the various books on a managed basis over the coming months and years and involves the Administrators' supervision of a run off team deploying many continuing LBIE employees.

Administrators' activities by Workstream

By reference to the phases of activity referred to above, the following sections of this document provide a summary description of the work being performed in each of the principal workstreams, primarily affecting the wind down of LBIE's former activities:

- Equities, fixed income and prime services
- Dealing with Trust Property (client monies and assets)
- Operations
- Inventory (physical stock management)
- Terminations of derivative transactions
- Failed trades
- Stock Borrows and Loans (repos and reverse repos)
- Treasury (cash management)
- Finance
- IT (systems resources)
- Human Resources
- Branches (LBIE's 12 overseas branches)
- Sale to Nomura
- Liaison with LBHI and its advisers

Other workstreams address the various support services and peripheral trading activities of LBIE and the statutory and regulatory compliance matters which the Administrators are required to deal with.

The activities of the Administrators in each of these areas is set out in the following pages.

4.2 Equities, Fixed Income and Prime Services

Background and workstream issues

Equities

Equities served the liquid, leveraged and futures markets. These included cash trading, flow derivatives in listed options markets and vanilla over-the-counter options and derivatives markets and programme trading. The Leveraged Businesses included structured derivatives and convertibles. The Equities Futures business executed and cleared equities and fixed income futures and option transactions largely for clients on an agency basis. The Clearing and Execution business provided these services to broker-dealers and other clients that did not have market-access themselves.

Fixed Income

Fixed Income activities included market making and participation in the new issue and secondary cash and derivative markets spanning Government and Agency Obligations, Corporate Debt Securities and Loans, High Yield Securities, Leveraged Bank Loans and Money Market Products.

Prime Services

Prime Services engaged in full operations, financing, clearing and processing services for its hedge fund and other clients. It offered a full suite of prime brokerage products and services, including margin financing and yield enhancement through synthetic and traditional products, global securities lending, full-service global execution platforms and research teams, customized risk management solutions, introduction of clients to suitable institutional investors, portfolio accounting and reporting solutions and personalised client service.

Over the counter ("OTC") contracts

As at 10 October 2008 there were approximately 18,000 OTC equity derivative contracts between LBIE and its counterparties, which includes amounts with other Lehman entities (11,000 of which are live and 7,000 terminated). There are approximately 45,000 OTC fixed income contracts of which 32,000 are live and 13,000 terminated trades.

Contracts varied in complexity from relatively vanilla options to complex and bespoke exotic trades, structured to meet a particular client's needs. The risks arising from these positions were hedged by a combination of other OTC contracts, exchange traded instruments (futures and options) and physical securities. LBIE also resolved not to hedge certain positions and held proprietary positions.

LBIE was a significant participant in the exchange traded futures and options markets, holding significant house and client positions which were primarily cleared through LCH and Eurex but also in various markets around the World through a network of clearing brokers.

Soon after our appointment we retained independent advisers and brokers to assist in the close out and execution of market trades to ensure the market had little visibility into the strategies being pursued.

Terminated OTC trades

By 10 October 2008 approximately 20,000 OTC equity and fixed income trades had been terminated in accordance with the relevant ISDA or other agreements.

The valuation of each trade is being reviewed to obtain assurance that client valuations are compliant with the underlying agreements. These valuations range from the relatively straightforward to the highly complex and are dependant on structured mathematical models and market data.

As at 10 October 2008 there were approximately 43,000 live OTC fixed income and equity contracts and our focus has been on identifying opportunities to negotiate with counterparties to terminate or agree a settlement.

Listed derivatives, exchanges and clearing houses

LBIE had significant portfolios of listed derivatives open positions at global clearing houses and brokers, for example the initial and variation margin held at Eurex was in the order of \$1.1bn and at LCH.Clearnet was £1.4bn as at 10 October 2008. The scale of positions held with other clearing brokers ranged from several hundred thousand dollars up to levels in excess of \$65m.

Immediately after Administration on 15 September 2008 there was significant market turbulence. Steps were taken by the clearing houses and brokers to liquidate all positions. Given the scale and potential market impact of closing out positions held with these institutions we worked with the clearing houses to close out positions in as orderly a manner as possible.

As at 22 October 2008 \$1.3bn of collateral held by clearing houses and exchanges has been recovered. We estimate that a further \$1.5bn should be recoverable from clearing houses and brokers.

Securities exchanges and clearing houses

LBIE had significant transactions flowing through a large number of global securities exchanges, most of which have suspended and defaulted LBIE activities. To the extent that securities exchanges have applied their default rules, their application and resolution is taking considerable time to take effect.

Physical positions in shares and fixed income securities have been reconciled to their respective custodians or depositories and where they are proven to be unencumbered house positions (i.e. not client assets, see Prime Services below) these may be sold for the benefit of the unsecured creditors of LBIE.

Prime Services

LBIE operated approximately 700 relationships in the Prime Services business area. The Administrators' approach is to ensure the control, management and realisation of client "net debit" positions to:

- realise assets due to Prime Services as a consequence of client / counterparties having outstanding debit positions;

- liquidate "long" positions that are unencumbered for the benefit of LBIE's unsecured creditors and held at various counterparties / depositories;
- receive coupons and other entitlements arising from corporate actions relating to main ("own book" or "house") account positions and secure entitlements for underlying client positions; and
- confirm and reconcile assets held for safe keeping and return them to clients.

To date, activities in this area have been complicated by:

- certain positions being held in the US and Asia where access to the relevant data has not been forthcoming;
- the existence of thousands of notices of terminated transactions, arising from failed trades over the weekend of 12 September 2008; and
- the need to update books and records as at 15 September 2008.

The issues are further substantially complicated by the uncertainty as to the status of the accounts. In many cases Prime Services clients have lent securities as collateral against cash or securities loans, which may have then been:

- re-lent (re-hypothecated) to the market in accordance with the prime brokerage agreement;
- re-lent in accordance with the prime brokerage agreement but above a predetermined agreed limit attached to such lending; or
- not lent but mis-posted to the main account and / or posted directly to the main account when they should have been posted to the custody (safe keeping) account.

There are some 500 hedge fund relationships with over 1,300 funds. Prior to the Administration, the Prime Services team was responsible for communicating directly with these clients, via telephone and email on a daily basis. Following the Administration this correspondence was directed to the Administrators' personal mailboxes and voicemail. Managing the volume of direct calls and emails to this group has been a significant challenge initially overwhelming the telephone and e-mail systems.

It became immediately apparent that the various challenges and issues faced by the Prime Services clients were likely to result in extensive legal proceedings by clients to assert control and ownership of the assets in the management of LBIE. The Administrators have formed a Trust Property Team (further discussed below) to ensure that clients' issues are handled in a systematic, fair and equitable manner.

Objectives

The main objectives of the Equities, Fixed Income and Prime Services workstreams are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify and establish a suitable control framework to safeguard the assets. • Identify specific market positions. • Identify appropriate realisation strategies specific to each position to maximise return. • Identify and retain key staff to facilitate and support the realisations of book positions. • Close out risk positions and the subsequent realisation of over collateralisation on derivative exchanges and clearing houses. • Facilitate responses to queries raised by employees, counterparties and other stakeholders.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Develop and embed a formal trade approval process which can be applied to all trades prior to execution. • Value the outstanding positions to provide the Administrators with data to support execution decisions. • Effectively utilise the retained employees to support the Administrators in their objectives. • Respond to business activities queries raised by employees and external stakeholders. • Close non-client proprietary positions, once they have been confirmed (by Operations) as unencumbered, that are available for sale. • Coordinate the identification of open OTC contracts which have a positive mark-to-market to LBIE and implement mechanisms to realise value. • Coordinate the review and validation of valuations of OTC contracts under ISDA and other terminated agreements.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Design and implement a management information framework. Monitor the information on an ongoing basis. • Implement position / counterparty strategies to maximise return to the creditors. • Identify and validate counterparty claims. • Execute exit strategies.

4.3 Trust property

Background and workstream issues

LBIE held many classes of assets on behalf of its clients. It had provided significant financing to many clients, especially hedge funds and under the terms of these agreements LBIE had rights over certain assets. Additionally, under the terms of some custody arrangements, there was a right of set off where clients owed amounts to LBIE.

The identification of unencumbered client assets is therefore complex and considerable data is needed to establish an accurate position on a client by client basis. This is further complicated as LBIE's systems booked trades on a "contractual settlement" basis rather than an "actual settled" basis. As such, postings in the systems need to be reversed to reflect the position at 15 September 2008. The reconciliation steps that are required to be undertaken include, for example; amending the LBIE books and records for some 140,000 failed trades, pending transactions that have been contractually settled and corporate events that have not been recorded; adjusting LBIE's books and records to reflect market participant's actions post Administration and analysing the impact on the client assets if applicable; determining the location of the assets (custodian, counterparty, loaned, re-hypothecated) and obtaining statements, analysing assets from a legal perspective and determining final positions.

Additionally, it is essential that the physical inventory of securities is reconciled to the book inventory for both House and Client Assets.

LBIE's management estimate that LBIE had approximately 8,000 ISDA Master Agreements in place with counterparties under which OTC derivative transactions were effected, approximately 1,000 Global Master Repurchase Agreements ("GMRA") and approximately 600 Overseas Stock Loan Agreements ("OSLA") in place for repo transactions. In addition there were a substantial number of other "master" agreements for derivatives, repo and stock-lending transactions. There were approximately 67,000 open trades under the ISDA Master Agreements as at the date of Administration.

The Administrators have deployed a specialised forensic team that is operating across five key areas: client money, client assets, intercompany client money issues, IT development and litigation support. The team also support and enable the data capture and database development technology. In addition, we are deploying financial services specialists to support the identification and reconciliation of the client money and asset positions.

Court Application

In addition to addressing the issue of those Client Assets that in principle should be available to be returned to clients, the Administrators are aware of the issues faced by all of LBIE's unsecured creditors and the Administrators' responsibilities to them. We have sought to adopt a system for dealing with Client Asset claims in an orderly and efficient manner and one which, while recognising the importance of dealing with Client Asset claims, enables us to act with proper regard to the interests of all creditors.

The Administrators presented these procedures to the High Court on 7 October 2008, at which the FSA was also present, and have obtained an order approving these steps.

Prioritisation and Hardship Committee

In accordance with the Court order, the Administrators have set up a body ("The Prioritisation and Hardship Committee") to identify a set of principles that can be applied when considering the prioritisation of claims. This is in addition to The Trust Property Committee which has been established to oversee the operation and the overall management of the Trust Property Team.

The Prioritisation and Hardship Committee is periodically reviewing the principles of prioritisation to ensure that the overriding objective of treating all counterparties fairly is not prejudicial to the interests of a minority.

The Committee makes recommendations to the Administrators who then decide the terms on which resolutions will be reached with individual counterparties or classes of counterparties.

Direction from the Court

The Administrators may from time to time need to seek further directions from the High Court on particular issues arising with respect to Trust Property, for example, with regard to recovery of costs incurred in the process.

Workstream objectives

The main objectives of the Trust Property workstream, which is being led by our Forensic specialists, are:

Phase	Objectives
Phase I Control and assimilation :	<ul style="list-style-type: none">• Gain an understanding of the extent of client assets and monies.• Identify the entire population of counterparties that purport to have claims, rights or other interests in the Trust Property.• Identify a methodology for managing such assets.• Contact all parties identified as potentially having client assets in LBIE.• Design and build an IT system for managing the claims to client assets.• Liaise with the operations workstream on client money reconciliations.• Develop controls and interfaces with Operations, Finance and Business Activities for handling client assets.• Determine the most expedient method of communicating with counterparties.
Phase II Systemisation	<ul style="list-style-type: none">• Respond to queries raised by external stakeholders.• Embed procedures to reconcile all data and information to appropriate sources, to include terminations and other data impacting value.• Determine the various legal issues that impact upon the validity of the Trust claims.• Monitor the management and reconciliation of client assets (eg Corporate Actions).• Agree and implement a basis upon which the costs and expenses of dealing with all issues in relation to the Trust Property can be discharged.• Provide regular communication to clients explaining progress made in dealing with their assets.
Phase III Run off:	<ul style="list-style-type: none">• Agree and implement a procedure for making interim distributions of Trust Property to counterparties with valid Trust Claims.

4.4 Operations

Background and workstream issues

The Operations function within LBIE is responsible for the processing of transactions across multiple systems and across multiple geographies and to support business activities. This is the core function required to identify and value assets and liabilities associated with the trading operations of LBIE.

There were over 400 Operations employees within LBIE in London supporting and processing trading activity for LBIE and other LBHI subsidiaries, largely for operations within Europe.

The Administrators' team is supported by relevant specialists from within PwC whose specialist skills include settlements, exchanges, tax and insolvency.

This workstream has been designed to manage the following issues and challenges:

- Provide the supporting evidence relating to:
 - Decision making process concerning sale of House positions;
 - Assessment of the status of potential client assets and assets held in safe custody or co-mingled accounts;
 - Manage the resolution of over 140,000 failed trades. To resolve the accounting for these failed trades, by exchange, by counterparty and by jurisdiction;
 - Separate the LBIE vs. non LBIE activities.
- Manage inter-entity dependencies, including activities performed for LBIE by Lehman Brothers Inc., India (Powai) and other third party vendors.
- Coordinate intra-dependencies within LBIE e.g. ISDA/GMRA terminations.
- Manage over 500 reconciliation activities and resolve internal and external systems blockages currently preventing updating internal books and records and external reconciliation.

Workstream objectives

The main objectives of the Operations workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Identify the pre and post Administration Operations model. • Map the relationship between Operations Management and reporting to the Administrators' resource. • Understand processing flows across LBIE businesses. • Identify the population of failed and unsettled trades arising post administration. • Identify agency activity and complex structures supported by LBIE.
Phase II Systemisation:	<ul style="list-style-type: none"> • Design and develop settlement and custody processes to ensure stock and cash, realised from settlement activity resides in secure post Administration accounts. • Provide support to the Trust Property team to ensure client money is accurately reconciled. • Ensure all trades entered into (LBIE obligation) are included in the corporate functions repository and that they reflect correct "failed" trade status so that the reconciliations to cash and depot accounts are accurate. • Provide support to the Terminations workstream to ensure all terminations are valued and support the statement of affairs for creditors claims. • Reconcile collateral status for OTC derivatives. • Facilitate the processing of operational taxes (e.g. withholding tax) and liaise with tax authorities. • Determine whether Agency services provided by LBIE (e.g. loan, calculation, facility, disposal agent roles) to other parties should be continued. • Respond to operational queries raised by employees and external stakeholders. • Establish roles and responsibilities of the work stream to fully utilise the retained employees in supporting the Administrators in their objectives.
Phase III Run off	<ul style="list-style-type: none"> • Process trades which had failed or were unsettled following appropriate approval, paying attention to the net settlement process. • Settlement of House position sales. • Process mandatory and voluntary Corporate Action activities. • Provide evidence to support the Trust Property Team and Treasury to ensure appropriate identification of client assets and monies. • Provide Management Information to monitor the status of trading inventory, agency activity, pre-advised and actual cash realisations.

4.5 Inventory

Background and workstream issues

The Inventory workstream within the Operations function relates to the physical management of house and client securities. LBIE used custodians, sub-custodians, in-house and external vaults to hold and manage positions.

According to the records provided by the above, it is estimated that total securities under LBIE's control had a book value of some \$40bn at 15 September 2008.

Extensive resources have been committed by the Administrators to this critical area, to ensure optimal control and management.

This workstream has been designed to manage the following issues and challenges:

- It is estimated that over 11,000 securities were held at 97 depots, as at 15 September 2008, for House and Client assets. In addition, there are a number of other exchange, central counterparty and settlement agent relationships which have to be managed before finalising the house and client positions.
- The records of LBIE were not maintained in a fashion which facilitates immediate reconciliation with depots.
- There are over 3,555 reconciliation breaks with an aggregate value of \$2.1bn (i.e. differences between LBIE systems and depot records).
- The depot records for House and Client assets report positions which differ from the Company's systems.

All depots have been contacted and details of all assets requested.

A process has commenced to reconcile all depot positions to LBIE records. The Inventory workstream has:

- addressed internal and external systems issues to allow updating of the LBIE books and records; and
- requested details from all counterparties to commence external reconciliations.

The team is collating and providing evidence relating to depots, pendings and financing

arrangements to the decision making process concerning the sale of house positions and the assessment of client assets held in safe custody or co-mingled accounts.

Workstream objectives

The main objectives of the Inventory workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify the population of depots, relationships with custodians, sub custodians, settlement agents, central counterparties and exchanges for on and off exchange cash trading activity. • Initiate dialogue with agent banks and custodians to discuss security/collateral arrangements under liquidation. • Request confirmation of stock by location from custodians. • Ensure physical securities are held in a safe environment.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Monitor the status of LBIE's account at agent banks and custodians. • Communicate with depositories to unfreeze depot accounts. • Reconcile stock positions at depots and the positions that are being disposed of, in order to maximise cash realised. • Develop settlement processes to ensure settlement activity results in stock and cash transferring to secure accounts. • Ensure all trades entered into were included in the sub ledger and that the sub-ledger also reflects correct "failed" status so that reconciliation to cash and depot accounts are accurate. • Establish roles and responsibilities of the workstream to fully utilise the retained employees in supporting the Administrators in their objectives. • Respond to queries raised by employees and external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Implement settlement process on the sale of house positions. • Support the Trust Property team and Treasury team to ensure appropriate identification of client assets and monies. • Design and implement a management information framework. Monitor the information on an ongoing basis. • Implementation of position/counterparty specific strategies to maximise return to the creditors. • Identify and validate counterparty claims. • Execute the exit strategies developed by the business activities workstreams.

4.6 Terminations

Background and workstream issues

Many of the trades that LBIE entered into with counterparties were covered by Master Agreements. The majority of these Master Agreements covered OTC Derivatives, Stock Loan and Re-hypothecation (GMSLA); ISDA, OSLA and GMRA respectively.

On a default event (such as LBIE being placed in an Administration process), the Master Agreements stipulate the method and timing of early termination. The key events of a termination involve a termination notice (which establishes the date that the agreement is terminated) and a valuation statement which shows the settlement amount for all the trades under that agreement. These documents are sent by the non-defaulting counterparty to LBIE.

To deal effectively with these terminations, they must be logged and validated and any outstanding cash amounts owed to LBIE must be pursued.

The challenges are primarily of scale and complexity in terms of trade volumes and agreeing close-out valuations.

Volume of terminated contracts:

As at 10 October 2008, there were approximately 10,500 agreements comprising 8,000 ISDAs, 1,000 GMRA's, 600 OSLAs and various other forms of agreement. There are tens of thousands of trades within the Fixed Income and Equities businesses including transactions with other Lehman entities which need to be validated. At 27 October the position regarding terminations was as follows:

	Equity	Prime	FID	Other	Total
Live trades	10,704	1,905	32,351	169	45,129
Trades under a terminated agreement.	7,225	2,184	12,524	52	21,985
Total	17,929	4,089	44,875	221	67,114

Creating a robust, scalable, controllable process across Business Activities, Operations, Legal, Treasury and Finance to validate these agreements represents a significant challenge.

Validating the close-out amount calculated by counterparties:

- Establishing the LBIE view of the counterparty positions to reconcile against the close-out valuations relies on LBIE infrastructure, which has been partially unavailable / not maintained / owned by LBIE. We have had to create a manual process as a workaround.
- The valuation process requires retrospective market data which is currently unavailable in some cases.
- It has been a challenge to reconcile LBIE's information to counterparty correspondence (close-outs) as the information provided by the counter-party has varied greatly in detail and quality.

Gaining a comprehensive understanding the client's overall position with the Lehman Group is difficult as full consideration needs to be given to failed trades, collateral, trades booked by non-LBIE entities, and counterparties with multiple agreements. These issues must all be addressed to fully reconcile an individual counterparty claim and effect recovery.

Workstream objectives

The main objectives of the Terminations workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Design and develop a process to capture all terminations (including counterparty valuations). • Develop a regular line of communication between the Business Activities, Operations and Finance. • Establish a process to log and track incoming termination notices. • Develop a process to capture base data (trades, counterparties, collateral etc). • Run a pilot to test individual components of the process.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Complete a pilot test on a subset of the total terminations. • Ensure close-out notices are valued to enable: <ul style="list-style-type: none"> – allow the process to be controlled; – provide insight into possible issues with the total population of trades and ISDA's, that in turn will allow the approach to be adapted; and – to make best use of specialised resource that can value and validate close-out statement amounts. • Prioritise terminations to be valued. • Process exceptions (e.g. hard to reconcile / illiquid portfolios). • Effectively utilise the collateral management group (in Operations) which managed counterparty disputes pre-Administration. • Ensure all trades for selected agreements are valued and validated. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Negotiate unresolved discrepancies and resolve with counterparties. • Negotiate cash amounts to be collected. • Ensure all process exceptions are addressed and resolved. • Provide support to litigation where required.

4.7 Failed trades

Background and workstream issues

As a consequence of the Administration, many trades in the process of settlement were not concluded. There are approximately 140,000 unsettled cash trades reported, of which approximately 82,500 are in Europe, 45,000 in Asia and 12,500 in US. In addition, there are extensive derivatives failed trades. This issue has been of major concern to clients, market intermediaries and regulators.

The issues to be addressed have never been tackled before on this scale. This has resulted in numerous market participants taking opposing positions to LBIE, particularly in relation to OTC trades.

We continue to work with regulators and settlement systems and clearing houses/central counterparties to agree a basis on which unsettled trades can be addressed.

We have also begun interaction with former Lehman Group affiliates as 45,000 unsettled trades can only be resolved with the cooperation of LBJ (Japan) (now under the control of Nomura) and 12,500 with the support of LBI (US) (certain assets acquired by Barclays).

Reconciling data held in-house with that held by third parties, especially Exchanges, central counterparties and settlement agent banks who have applied their default rules to close out the positions, is a time consuming exercise, requiring a review and reversal of affected trades. In addition, determining the final net settlement position will take some time – (for example, in the UK the London Stock Exchange default process will take 6 to 8 weeks from the date of Administration (being 15 September 2008) to be completed (this affects approximately 5,000 trades).

Across Europe implementation of the Settlement Finality Directive (SFD) has not been consistently applied. As a result, LBIE cannot universally apply the process agreed with the FSA regarding OTC cash transactions in the UK, across other European Markets. Settlement processes outside of Europe have also yet to be resolved.

Further legal analysis will be undertaken with respect to assessing the actions taken by Exchanges and Settlement Systems and the extent to which default rules of one part of the trade settlement chain override the default rules of other parts of the settlement chain.

Beyond the issue of resolving unsettled transactions, there is the follow on issue of effecting the cancellation of underlying trades. A substantial amount of time has been and will be spent engaging and negotiating with counterparties over bilateral cancellation of OTC transactions not subject to exchange or other cancellation rules. The team will continue to work alongside the Stock Loan and Borrows team to resolve stock loan and repo fails.

Workstream objectives

The main objectives of the Failed Trades workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Gain an understanding of the volume and nature of failed trades (Exchanges, Central Counterparties, Settlement Systems, Clearing Houses and Settlement Agent banks and LBIE counterparties). • Work with regulators, clearing houses and other entities to explore and resolve issues. • Communicate to the market as our approach evolves to minimise the degree of market uncertainty caused as a result of failed/unsettled trades. • Ensure failed trades are accounted for in client and house position reconciliations. • Identify how to preserve LBIE's position on failed trades.
Phase II Systemisation:	<ul style="list-style-type: none"> • Define detailed approach for handling specific categories of failed trades. • Implement options for addressing failed trades. • Monitor status of failed trades from initial identification to resolution. • Implement bilateral and exchange based resolutions. • Reflect transactions into books of account, as appropriate. • Provide support to the Operations team during the realisation of and unwinding of the failed trades. • Respond to queries raised by external stakeholders.
Phase III Run off:	<ul style="list-style-type: none"> • Same as phase II.

4.8 Stock Loans and Borrows

Background and workstream issues

LBIE funded assets based on their liquidity characteristics, and used the securities lending markets extensively to manage liquidity. This was pooled with the liquidity position of LBIE's ultimate parent, LBHI.

In common with other market participants, LBIE financed assets under market standard terms whereby house and hypothecated client assets were lent to and borrowed from other market participants under either repo / stock lends or reverse repo / stock borrow arrangements. Typically these transactions were governed by GMSLA, OSLA, GMRA or other market standard arrangements.

LBIE estimates that, at 15 September 2008, market financing of approximately \$104bn of borrowing and \$109bn of lending had been entered into. In addition, a further \$114bn had been lent to other group companies and \$92bn borrowed. Market practice is to over-collateralise borrowings (typically 105%) and to take excess collateral on lending (known as a "haircut").

The terms of these financing arrangements provide that LBIE has triggered an event of default by virtue of its Administration and market counterparties have largely exercised their rights to close out collateral and buy-in short positions.

Given the value of these positions and the number of individual trades it is necessary to establish the value for which posted collateral was realised and we have contacted all market counterparties to establish their close-out estimates. These will be reviewed to ensure they accord with market values at the time of close out.

Some 13,000 stock loans failed as a result of Administration.

There exist multiple counterparties, depositories and compensating positions whose entitlements as at 15 September 2008 are further complicated by:

- certain positions being held in the USA where access to the relevant data is not yet forthcoming from LBHI;
- approximately 2,000 break notices of terminations in transactions arising from failed trades over the weekend of 12 September 2008;
- the unreliability of the books and records as at 15 September 2008, given the level of fails; and
- the volatility in the market immediately following LBIE's insolvency.

Workstream objectives

The main objectives of the Stock Loans and Borrows workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Gain an understanding of the scale and nature of the stock lending operations. • Ensure all market counterparties account for their actions under the borrowing / lending arrangements. • Define a methodology for reviewing submissions from market counterparties. • Contact all market counterparties and obtain details of their actions. • Develop Management Information for monitoring position by stock line.
Phase II Systemisation:	<ul style="list-style-type: none"> • Implement review methodology, including the role of LBIE Internal Audit. • Recover all excess collateral. • Ensure client valuations reflect buy-ins. • Develop a framework for reviewing counterparty calculations for buy-ins. • Pursue LBIE receivables. • Monitor receipts into LBIE via Management Information ("MI"). • Provide support to the Operations team during the process of validating SLB positions. • Respond to queries raised by external stakeholders.
Phase III Run off:	<ul style="list-style-type: none"> • As phase II.

4.9 Treasury

Background and workstream issues

The treasury function manages the liquid resources within LBIE. There were over 1,500 accounts with more than 60 agents in over 60 countries. Cash sums were held in many countries as collateral and exchange deposits. According to the balance sheet at 31 August 2008 some \$2.8bn is held in these accounts and some \$1.9bn in separate accounts reported as relating to client monies.

The treasury team was historically organised on a global functional basis. It therefore included activities specifically related to LBIE. A separate team has been established.

Following our appointment as Administrators it was necessary to reorganise the Treasury functions to ensure it was able to pursue the objective of realising cash balances.

All existing banking facilities of LBIE became inoperative and it was necessary to establish facilities with the Bank of England. This was done in the first week and enabled cash realisations to be handled and payments to be made.

LBIE was part of the LBHI liquidity management process, and as a consequence LBIE had no immediate liquidity at the date of Administration. As reported earlier, the Administrators negotiated a loan facility to enable the immediate expenses of the administration to be discharged.

Payments due to LBIE that were in the course of being made at the date of Administration were, in part, received by LBHI. Steps are being taken to recover these monies, which include both House and Client amounts.

The Treasury function within LBIE will, in due course, manage and administer all liquid assets and securities, requiring ongoing investment in systems and processes.

Workstream objectives

The main objectives of the Treasury workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Gain an understanding of the scale and nature of the operations of the LBIE Treasury function. • Identify and retain key staff. • Ensure all banks / paying agents are notified of the insolvency and provided with revised instructions. • Raise USD \$100 million to fund immediate expenses of the Administration (primarily payroll). • Establish operating banking arrangements for the Administration. • Establish new client accounts with the Bank of England and agree FSA waivers as necessary. • Establish new securities accounts with a third party provider. • Design a revised treasury management structure. • Develop an investment strategy so that excess funds can be invested. • Support the identification, negotiation and recovery of all cash balances, both house and client.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement investment management strategy, developed in phase 1. • Manage the numerous currencies, client monies accounts and house accounts in accordance with defined criteria. • Oversee management of cash and transactions. • Reconcile and manage house and client balances, this will include investment of funds in line with normal administration investment practices. • Effect regular account reconciliations. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Manage distributions to creditors and clients from realised funds. • Actively manage investment risk.

4.10 Finance

Background and workstream issues

The accounting systems of LBIE processed many thousands of transactions a day and were reconciled periodically on a global basis with other Lehman group companies.

The Administrators have deployed specialist PwC resource with expertise in systems design and control, product accounting, and control organisation, financial reporting and control processes.

We have been working to gain an understanding of the financial position at the date of Administration. This process has been dependent upon the support of overseas Lehman staff not employed by LBIE or any other Lehman entity which is under our control. LBHI group intercompany balances are currently unreconciled and many transactions remain un-posted.

It has been necessary to develop MI, including the reporting of asset realisations, which requires redesign of the manner in which information is collated and reported within LBIE. MI requirements of each trading operation continues to need support and certain additional MI is required by the Administrators in order that they can control the affairs of the Company in the insolvency process. This is an ongoing exercise.

Stakeholder identification has been challenging, particularly establishing initial creditor positions, given the unavailability of certain standing data and a number of reference data sources. Creditors' positions at the date of Administration are impacted by derivative terminations, collateral sales, netting and offset by exchanges and counterparties. In addition, re-hypothecation and borrow/loan/repo positions add further complexity.

Following the Administration LBIE has received many thousands of termination notices. The finance function is supporting the valuation of these terminations, which includes the complete range of traded products.

Workstream objectives

The main objectives of the Finance workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify and retain key finance staff. • Identify key finance systems and communicate to the IT workstream to ensure system maintenance. • Provide ongoing support to the business activities. • Obtain, understand and analyse the balance sheet by financial instrument and counterparty. • Identify creditors for each entities' Statement of Affairs incorporating trading and non-trading balances. • Define and run the process in association with Operations, Legal, Business Activities and Risk to establish the position re master agreement terminations to ensure completeness, accuracy and validation of both debtor and creditor positions. • Develop Management Information around both asset realisation and creditors to allow the Administrators to establish current and future positions. • Design the operating model for the Finance function to support the wind down in phases II and III. • Establish net debtor/creditor position in regard to intercompany dealings. • Support the compilation of data for the Statement of Affairs. • Identify cost savings to adapt the cost base to the medium term needs of the Administrators.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Further develop the Management Information reporting process established in phase 1 to ensure all data is captured for run off. • Implement management framework for run off. • Ensure the needs of Business Activities, Operations and Finance are addressed. • Produce tax and other compliance filings where necessary, to support the Administration. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Ensure the ongoing provision of financial information for management of the administration. • Manage cross workstream dependencies. • Support the process to agree the shape of the retained organisation (people and systems).

4.11 IT

Background and workstream issues

LBIE's business was centred around heavily invested IT infrastructure, which it shared with other members of the LBHI group. This IT infrastructure supported all of the Company's activities. It was essential that this was preserved post administration to enable the Administrators to have the ability to manage and report data to meet their objectives.

Immediate control was asserted over all IT infrastructure (data, applications and the underlying networks and servers). Actions were aimed at ensuring IT and data was appropriately secured to protect confidentiality, integrity and availability of the legacy information including LBIE house and client asset data.

PwC financial services IT experts were deployed to take control of the IT environment. IT and physical security experts were also required to secure the systems and building at 25 Bank Street.

Similar to many large global financial services organisations, LBIE's legacy business was supported by a very complex IT infrastructure that was operated on a global basis. The UK businesses alone used over 2,000 applications which were hosted both in the US and UK. Of the total number of servers, 7,000 were physically located in the UK. There were over 700 LBIE IT employees on the payroll at 15 September 2008.

Computer systems were not aligned to geographic boundaries and therefore LBIE and other group companies whose business was based in London used systems hosted and run by New York that were supported by application development teams in India and Sweden.

Immediately post Administration, action was taken to isolate and protect data and intellectual property owned by LBIE. In many cases this was seriously complicated and occasionally prevented where systems were hosted and controlled in New York by LBHI.

After LBIE became insolvent, many of the main IT systems supporting trading and operations ceased to be used, such that the data required to keep these systems up to date was no longer entered (e.g. market data normally entered by traders). To facilitate wind down, these systems are being updated to allow positions to be traded out.

In addition, in terms of the premises at 25 Bank Street, the Administrators have taken over operational management and oversight for this 31 floor European headquarters building, which housed over 5,000 staff and for which the access management system was previously run and hosted in the US.

Workstream objectives

The main objectives of the IT workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Gain an understanding of key systems. • Protect the confidentiality and integrity of the IT systems and the data that they contain by limiting and controlling logical access. • Make arrangement for the continuation of support from third party vendors. • Identify key staff for retention. • Identify IT dependencies on third parties including Barcap and Nomura. • Negotiate transitional service agreements with other parties, including Nomura, Barcap and LBHI.
Phase II Systemisation:	<ul style="list-style-type: none"> • Ensure the needs of Business Activities, Operations and Finance in terms of IT systems to support the wind down processes are addressed. • Implement service level agreements and governance arrangements with third parties including: LBHI, Nomura, Barcap and the shared service centre in India. • On-going management of the legacy Lehman European buildings including the European Headquarters at Bank St in London. • Implement the transitional service arrangement with Nomura.
Phase III Run off:	<ul style="list-style-type: none"> • Ensure the ongoing provision and stability of IT and infrastructure.

4.12 HR

Background and workstream issues

At the date of Administration there were approximately 5,000 people employed across 12 different legal jurisdictions. The business of LBHI was organised in functional and market areas, rather than by legal entity.

The majority of these people were on long term secondment from Lehman Brothers Limited ("LBL") to LBIE. A large number of these also supported the trading operations of Lehman businesses elsewhere in Europe and the US. An immediate challenge was to identify those deployed on LBIE activities and those supporting non-LBIE entities.

It was immediately recognised that the need to provide certainty to key employees and determine a retention programme for the functional areas of the business was of paramount importance.

As LBIE reimburses LBL for all employees it was necessary to review staffing levels and over 800 redundancies have been made to date. This has required significant specialist resource to handle the volume and complexity of redundancies.

With over 400 employees in LBIE branches it was also necessary to deploy senior specialist resources into all territories to liaise with local staff.

Following the transfer of 2,400 people to Nomura, the HR aspects of the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") was addressed from LBIE's perspective.

An ongoing communication strategy has been formulated to keep remaining employees advised of the restructuring of LBIE and the effect it has on their roles and responsibility. A further restructuring is planned in which new reporting lines and objectives will be identified, agreed and implemented.

Workstream objectives

The main objectives of the HR workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify key staff for retention. • Implement immediate cost savings through controlled redundancy programme. Manage employees sensitively. • Protect company assets. • Manage employees in all jurisdictions. • Manage the TUPE transfer of employees to Nomura. • Establish roles and responsibilities of the workstreams to fully utilise the retained employees in supporting the Administrators in their objectives.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement medium term retention package for employees required for run-off. Ensure robust performance related metrics are incorporated for retained staff. • Ensure employee remuneration is paid promptly. • Implement process for employee claims with the redundancy payments office. • Ensure ongoing communication with retained employees. • Manage employee queries and run "surgeries" for the redundant staff. • Respond to queries raised by employees and external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • HR insolvency specialist identified to head up the Lehman's HR function for the period of the wind down.

4.13 Overseas branches

Background and workstream issues

At the date of Administration, LBIE overseas branches had over 400 employees and operated in 12 countries in continental Europe, the Middle East and Asia. The branches (with the exception of Korea) acted as sales offices obtaining business on behalf of LBIE in the territories in which they were located. In Korea the branch operated autonomously and comprised sales and corporate functions.

The Administrators' immediate task was to gain an understanding of the situation by mobilising local PwC teams, managed and coordinated by a central UK team. The overseas teams were charged with identifying any assets held by the branches. Significant assets were held in Korea (c.\$400m), France (c.\$67m) and Switzerland (c.\$45m).

Korea

FSC of Korea (local regulators) issued an order of suspension of business and emergency measures ("FSC Order") upon LBIE Seoul Branch on 16 September 2008. The effect of this suspension was to prevent the Administrators from unwinding the trading positions and realising the value in Korea. The suspension will be in place until the earlier of 31 December 2008 or the FSC's voluntary lifting of it.

The Administrators are working to develop a plan to protect the net assets in such a way that will comply with local legislation and meet local creditors' issues.

France

There were \$67m of LBIE funds held by the Bank of France which could only be repatriated once the Administrators agreed to honour the severance packages of the LBIE staff being made redundant. The Administrators agreed to this, and an order was granted by the French Court which enabled the UK proceedings to be recognised in France. Consequently, the local proceedings were lifted leaving the Administrators in control and part of the funds have already been recovered.

Switzerland

There is \$45m in Switzerland which has been frozen by the local regulator. The funds can be realised once the regulator has clarity on the position in Switzerland with regard to the total liabilities of that branch and how they will be dealt with during the Administration.

Nomura Sale

There were over 100 employees initially selected for redundancy in the overseas branches. However, this process was delayed in certain jurisdictions due to local labour laws. For example, in Italy employees have a 75 day consultation process before they can be made redundant.

Over 300 employees have already transferred or will be transferring to Nomura.

There are a number of subsidiaries based in Europe which are owned by LBHI and are therefore outside the jurisdiction of the UK Administration.

Workstream Objectives

The main objectives of the Overseas Branches workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Formulate a plan for each branch, to identify how to best preserve value and minimise claims. • Identify and communicate with all branch staff, determining who works for LBIE and who works for other Group companies. • Identify those employees to transfer to Nomura, those to be retained for asset recovery activities and those to be made redundant. • Organise payroll in each jurisdiction.
Phase II Systemisation:	<ul style="list-style-type: none"> • Implement employee selection; facilitate Nomura transfers and local redundancies. • Process relevant payments and devise appropriate retention plans. • Develop local strategies for asset recoveries in Korea, France and Switzerland.
Phase III Run off:	<ul style="list-style-type: none"> • Manage remaining of local resource through to eventual full recovery of local assets.

4.14 Sale to Nomura

Background and workstream issues

The sale to Nomura, which is subject to confidentiality undertakings, was entered into by both LBIE and its sister company, Lehman Brothers Europe Limited (in administration) ("LBEL").

The business sale resulted in the transfer to Nomura of the following business activities:

LBIE

- **Equities** - comprising prime brokerage services, equity derivatives, research, execution services, cash/electronic trading, over-the-counter and off-the-floor proprietary trading operations and associated clearing and settlement operations based in London and in branches of LBIE in Zurich, Amsterdam, Stockholm, Dubai, Frankfurt, Madrid, Seoul, Milan and Qatar.

LBEL

- **Investment banking advisory** - comprising mergers and acquisitions, origination and advisory operations.
- **Global finance** - comprising equity capital markets, debt capital markets, leveraged finance, corporate derivatives and risk solutions operations.

The sale ensured that the operating platforms of LBIE were preserved and that the costs associated with maintaining such infrastructure were minimised, together with mitigating the potential claims of a large number of employees. The sale also simplifies the management of issues arising in the overseas branches and optimises scope for realising assets held by LBIE in those jurisdictions.

Under the terms of the sale, the jobs of some 2,400 staff were secured and transferred to Nomura. Many other employees and former employees who were not part of this transaction have since been offered employment with Nomura.

The terms of the sale also provided for the ongoing provision of core services and capability back to the Administrators, to support the run-off and wind-down of LBIE's business activities.

The key objective following the sale relates to working with Nomura to ensure their support in certain functional areas of the business to enable the resolution and run-off of outstanding LBIE positions.

Workstream objectives

The main objectives of the Sale workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Establish a robust governance structure to control the separation planning activity across all key LBIE functions, including interaction with the Nomura separation planning team. • Facilitate and challenge the workstreams on their separation planning and execution. • Understand key dependencies of the retained business on Nomura. • Facilitate the definition of transitional services required from Nomura including appropriate service standards. • Develop charging mechanisms in relation to services provided by the retained LBIE business to Nomura.
Phase II Systemisation:	<ul style="list-style-type: none"> • Design and develop the necessary governance and control framework to monitor and manage services under the transitional services agreements. • Liaise with the other workstreams to ensure processes and services are in place to support the wind down of the business. • Manage the ongoing cost base.
Phase III Run off:	<ul style="list-style-type: none"> • Monitor the service provided by Nomura on an ongoing basis to ensure the service level agreements are maintained, to conclusion.

4.15 Liaison with LBHI and its advisers

Background and workstream issues

The ultimate parent company of LBIE, LBHI, filed for Chapter 11 protection on 15 September 2008. Its board has hired restructuring and legal advisers.

Working within the LBIE businesses in the UK are certain employees who had historically worked on the business of other LBHI subsidiaries, as well as employees of US entities who are working on LBIE business. All Lehman Group businesses were, and continue to be, dependent upon substantially the same IT platform. The IT platform is at least in part controlled by businesses and entities outside the direct control of LBIE and LBHI.

The complexity and integration of the Lehman Group is such that there are disputes, competing claims and conflicting priorities. It is apparent that without a degree of cooperation between the LBHI entities and their respective advisers, progress in the liquidation and unwinding of the various estates could potentially be slower and more costly than could be the case under a collaborative arrangement. Given our view that it is in the general best interests of the creditors and counterparties of many of the LBHI entities that there is cooperation between the estates, steps are underway to develop a working protocol.

As creditors will be aware, both LBIE's Equities business and the operating business (and certain assets) of LBI have been sold. These sales have enabled the purchasers to continue to use the IT platform and the vendors have made arrangements with the purchasers for the provision of ongoing support and assistance under Transitional Services Agreements ("TSA").

The main challenges have been:

- Defining the services required by LBIE;
- Establishing exactly what the requirements of Nomura are;
- Determining how to ensure services between LBHI entities can be preserved and costs shared;
- Dealing with competing claims on resource, and conflicting priorities.

Workstream objectives

The main objectives of the LBHI workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> • Establish lines of communication at appropriate levels. • Defining the operational requirements of each party. • Identification areas of conflicting needs. • Agreeing the heads of an operating protocol. • Mitigating the need to revert to the US Bankruptcy Court.
Phase II Systemisation:	<ul style="list-style-type: none"> • Agree a formal communication framework with LBHI and its advisers. • Ensuring common issues are debated, monitored and addressed. • Ensuring operating resource is preserved and costs recovered from the appropriate party. • Other LBHI entities are identified, as required, to co-opt into any protocol. • Issues requiring the input of the US Bankruptcy Court are minimised.
Phase III Run off:	<ul style="list-style-type: none"> • Operations to continue in accordance with service level agreement.

Section 5: Proposals for achieving the purpose of the Administration

The Administrators make the following proposals for achieving the purpose of administration.

- i) The Administrators will continue to manage and finance LBIE's business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for LBIE's creditors as a whole than would be likely if LBIE had been immediately liquidated.
- ii) The Administrators will identify and return Trust Property in accordance with the Order of the High Court dated 7 October 2008. The Administrators will be looking to have the costs of dealing with Trust Property borne by such assets.
- iii) The Administrators may investigate and, if appropriate, pursue any claims that LBIE may have under the Companies Act 1985, the Companies Act 2006 or the Insolvency Act 1986 ("IA86") or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of LBIE or to maximise their realisations or for any other purpose incidental to these proposals.
- iv) The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and the costs of so doing shall be met as a cost of the Administration as part of the Administrators' remuneration.
- v) The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Sch.B1 IA86.
- vi) A creditors' committee will be established if sufficient creditors are willing to act on it. The Administrators propose to seek the election of a creditors' committee and to consult with

it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.

- vii) The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to the court or seek consent from the appropriate classes of creditors for an extension.
- viii) The Administrators may use any or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including: -
 - (a) The Administrators may formulate proposals for a scheme of arrangement under Section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors. If the scheme of arrangement is approved and sanctioned by the court, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
 - (b) The Administrators may place LBIE into creditors' voluntary liquidation. In these circumstances, it is proposed that Anthony Victor Lomas, Steven Anthony Pearson and Michael John Andrew Jervis be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Sch.B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators,

provided that the nomination is made after the receipt of these proposals and before they are approved, OR

- (c) The Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of LBIE's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
- (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later. If permission is not granted the Administrators will place LBIE into creditors' voluntary liquidation or otherwise act in accordance with any order of the court.
- ix) The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators at a time determined by the court.
- x) The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.
- xi) The primary currency for the Administration will be US Dollars and funds will be maintained in US Dollars, (except to the extent that monies are needed to meet Administration expenses payable in other currencies or monies are held in trust for the benefit of a third party). The Administrators will require creditors to submit their claims in US Dollars and dividends will be paid in US Dollars in the chosen exit route from the Administration.

Voting

Creditors will be asked to vote upon the following matters at the initial meeting of creditors: -

- The approval of the Administrators' proposals for achieving the purpose of administration (as modified, as applicable); and
- The formation of a creditors' committee.

Section 6: Financial Information

The Administrators have granted the Directors an extension of time in which to prepare a Statement of Affairs due to the complexity of the task.

The Administrators do not believe it is in the interests of creditors to provide an alternative financial analysis at this time, as such analysis is likely to be materially incomplete and, as a result potentially, materially misleading.

Neither are we or the Directors able to provide an accurate list of creditors of LBIE at this time as this could ultimately be materially impacted by the effect of the administration on creditors' claims. A list of known counterparties will be provided on the PwC website. It should be noted that those listed are not necessarily creditors of LBIE, indeed some of those listed will, in fact, be debtors to the Company.

When available, a copy of the Statement of Affairs will be lodged at Companies House and will be placed on the PwC website.

If available at the time, reference will be made to the Statement of Affairs at the forthcoming creditors' meeting. If not, the Administrators will present as up to date an explanation of the financial position as they are able to and will also make that available to creditors who do not attend, by way of the PwC website immediately following the meeting on 14 November 2008.

Section 7: Statutory and other 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:	AV Lomas, SA Pearson, DY Schwarzmann & 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.
Proposed end of the Administration:	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.

Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
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. 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:	It is too early to decide whether such an application might be necessary
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 it is an investment undertaking.

Appendix: Questions and answers regarding the initial meeting of creditors and the creditors' committee

(Reference to "Rules" are to the Insolvency Rules 1986)

Who will be at the meeting?

One or more of the Administrators will chair the meeting and answer creditors' questions (Rule 2.36). There is no obligation on the directors of LBIE to attend unless they are required to do so by the Administrators (Rule 2.34(2)).

What will happen at the meeting?

It will be assumed that creditors will already have received and read the Administrators' proposals. The meeting will give creditors an opportunity to put questions to the Administrators. The meeting will then consider and vote upon any modifications that individual creditors might put forward, following which a vote will be taken upon the whole proposals as modified.

Various other resolutions might be considered, in particular those dealing with the basis of the Administrators' remuneration and the appointment and composition of any creditors' committee.

Am I obliged to attend the creditors' meeting?

You are not obliged to attend the creditors' meeting. The law recognises that creditors are not always able to attend in person and allows you to ask a representative to attend as proxy and vote on your behalf. You will not prejudice your claim and entitlement to dividend if you do not attend or appoint a proxy.

How do I ensure that my vote counts at the meeting?

In order to vote, a creditor must have submitted written details of his claim and the chairman must have admitted that claim for voting purposes following the guidelines below. These details need to be submitted to the Administrators no later than 12.00 noon on the business day before the meeting (Rule 2.38(1)). You might also need to lodge a proxy.

The chairman can admit a claim for voting purposes even though it was submitted late if he is satisfied this was due to reasons beyond the creditor's control (Rule 2.38(2)).

Do I need to lodge a proxy form?

If you yourself are the creditor (and not a corporate body such as a limited company), you may vote by simply attending the meeting, provided you have lodged a claim as explained above.

If you do not want to attend the meeting, you may nominate someone else, or the chairman of the meeting, to vote for you. They can vote either on your instructions or at their discretion. Do, however, remember that the chairman will be one of the Administrators and you might wish to consider specifying clearly how he should vote.

You must do this by completing the enclosed proxy form or a substantially similar form. The form needs to be signed by the creditor or by someone authorised by him and the nature of the person's authority to sign should be stated (Rule 8.2). If a company is the creditor, a director should normally sign. The proxy form must then be submitted at or before the meeting.

Please remember that if the debt is owed to a limited company or other corporation and you wish to attend and vote at the meeting, you should complete and return the proxy form even if you are a director of LBIE. (Alternatively you can produce at the meeting a resolution of the directors authorising you to represent that company.) (Rule 8.7).

Who decides whether my claim ranks for voting purposes?

The chairman has the power to accept or reject the whole or any part of your claim (Rule 2.39(1)). If he is in doubt whether your claim should be admitted, he should mark it as objected to and allow you to vote. If however, the objection is sustained, then your vote will be declared invalid (Rule 2.39(3)). If your vote was critical to the outcome of the meeting, this could change the resolutions that were passed and/or result in a further meeting (Rule 2.39(4)).

What happens if I disagree with the chairman's decision?

You are entitled to appeal to the court for an order reversing the chairman's decision on your claim provided you do so within 14 days of the Administrator reporting the result of the meeting to the court, the Registrar of Companies and the creditors (Rule 2.39(5)). If the court does reverse the chairman's decision it can order that another meeting be held or make such other order as it thinks just (Rule 2.39(4)).

Creditors also have the right to appeal to the court if they believe that the administration unfairly harms their interests (Paragraph 74(1) Sch.B1 IA86).

We recommend that you seek legal advice about the merits of taking these steps in any particular circumstances.

How do I calculate my claim for voting purposes?

Votes are calculated according to the amount of a creditor's claim as at the date on which LBIE entered administration, less any payments that have been made to him after that date in respect of his claim and any adjustments by way of set-off in accordance with Rule 2.85 as if that Rule were applied on the date that the votes were counted (Rule 2.38(4)).

What majorities are needed to approve resolutions?

A resolution to approve the proposals or any modification to them is passed at the creditors' meeting if supported by a majority in excess of 50% in value of the creditors voting on the resolution (Rule 2.43(1)).

Any resolution is invalid if those voting against it include more than 50% in value of the creditors to whom notice of the meeting was sent and who are not, to the best of the chairman's / Administrator's belief, connected with LBIE (Rule 2.43(2)).

What happens if I cannot yet quantify my claim with certainty?

A creditor cannot vote in respect of a debt for an unliquidated amount or any debt whose value is not ascertained, unless the chairman / Administrator agrees to put on the debt an estimated minimum value for voting purposes (Rule 2.38(5)).

What happens if my debt is wholly or partly secured?

A secured creditor whose debt is wholly or partly secured is entitled to vote only in respect of the balance (if any) of his debt after deducting the value of his security as estimated by him (Rule 2.40(1)).

What happens if I hold a negotiable instrument?

A creditor shall not vote in respect of a debt on or secured by a current bill of exchange or promissory note unless he is willing: -

- (a) to treat the liability to him on the bill or note of every person who is liable on it antecedently to LBIE and against whom a bankruptcy order has not been made (or in the case of a company, which has not gone into liquidation) as security in his hands; and
- (b) to estimate the value of the security and, for the purpose of his entitlement to vote, to deduct it from his claim (Rule 2.41).

What happens if I am a creditor under a hire-purchase, conditional sale agreement or leasing agreement?

An owner of goods under a hire-purchase or chattel leasing agreement, or a seller of goods under a conditional sale agreement is entitled to vote in respect of the amount of the debt due and payable to him by LBIE on the date LBIE entered Administration. In calculating the amount of any debt for this purpose, no account shall be taken of any amount attributable to the exercise of any right under the relevant agreement, so far as the right has become exercisable solely by virtue of: -

- the making of an administration application
- a notice of intention to appoint an administrator or any matter arising as a consequence, or
- of LBIE entering administration (Rule 2.42).

Am I bound by the Administrators' proposals if they are approved at the meeting?

The Administrators' proposals, when approved by the creditors' meeting, will dictate how LBIE's affairs will be conducted in future and how creditors' claims will be addressed.

Once approved the proposals are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that creditors properly consider the proposals and decide whether and how they wish to vote.

What are the functions of the creditors' committee?

The creditors' committee shall assist the Administrator in discharging his functions, and act in relation to him in such manner as may be agreed from time to time (Rule 2.52(1)).

In particular, it has the duty to agree the basis of the Administrator's remuneration (Rule 2.106(3)).

How is the creditors' committee formed?

The creditors' committee is established at a creditors' meeting. It is not obligatory but the creditors decide whether they wish to have one (Paragraph 57(1) Sch.B1 IA86).

The committee must consist of at least three and not more than five creditors of LBIE elected at the meeting (Rule 2.50(1)).

Any creditor of LBIE is eligible to be a member of the committee, so long as his claim has not been rejected in whole for the purpose of his entitlement to vote (Rule 2.50(2)). A body corporate may be a member of the committee, but it can only act as such through a properly appointed representative (Rule 2.50(3)).

No person may act as a member of the committee unless and until he has agreed to do so (Rule 2.51(2)). Unless the relevant proxy or authorisation contains a statement to the contrary, such agreement may be given by the creditor's proxy-holder or representative under Section 375 of the Companies Act 1985 present at the meeting establishing the committee (Rule 2.51(2)).

A person acting as a committee member's representative must hold a letter of authority entitling him so to act (either generally or specially) and signed by or on behalf of the committee-member (Rule 2.55(2)).

No member may be represented by a body corporate, or by a person who is an undischarged bankrupt, a disqualified director or a person who is subject to a bankruptcy restrictions order, bankruptcy restrictions undertaking or interim bankruptcy restrictions order or is subject to a composition or arrangement with his creditors (Rule 2.55(4)).

No person shall on the same committee act at one and the same time as representative of more than one committee-member (Rule 2.55(5)).

The creditors' committee does not come into being, and accordingly cannot act, until the Administrator has issued a certificate of its due constitution (Rule 2.51(1)).

**Lehman Brothers International (Europe) -
In Administration**

**Joint Administrators' Proposals as
agreed by creditors**

The Joint Administrators' proposals for achieving the purpose of administration as agreed by creditors are:

- i) The Administrators will continue to manage and finance LBIE's business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for LBIE's creditors as a whole than would be likely if LBIE had been immediately liquidated.
- ii) The Administrators will identify and return Trust Property in accordance with the Order of the High Court dated 7 October 2008. The Administrators will be looking to have the costs of dealing with Trust Property borne by such assets.
- iii) The Administrators may investigate and, if appropriate, pursue any claims that LBIE may have under the Companies Act 1985, the Companies Act 2006 or the Insolvency Act 1986 ("IA86") or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of LBIE or to maximise their realisations or for any other purpose incidental to these proposals.
- iv) The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and the costs of so doing shall be met as a cost of the Administration as part of the Administrators' remuneration.
- v) The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Sch.B1 IA86.
- vi) A creditors' committee will be established if sufficient creditors are willing to act on it. The Administrators propose to seek the election of a creditors' committee and to consult with it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.
- vii) The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to the court or seek consent from the appropriate classes of creditors for an extension.
- viii) The Administrators may use any or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including:-
 - (a) The Administrators may formulate proposals for a scheme of arrangement under Section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors. If the scheme of arrangement is approved and sanctioned by the court, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
 - (b) The Administrators may place LBIE into creditors' voluntary liquidation. In these circumstances, it is proposed that Anthony Victor Lomas, Steven Anthony Pearson and Michael John Andrew Jarvis be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Sch.B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved, OR

- (c) The Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of LBIE's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
- (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later. If permission is not granted the Administrators will place LBIE into creditors' voluntary liquidation or otherwise act in accordance with any order of the court.
- ix) The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators at a time determined by the court.
- x) The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.
- xi) The Administrators will maintain all funds in the estate in the currencies in which such assets have been realised. The Administrators' strategy as regards the selection of an appropriate currency for maintaining estate funds, pending determination and implementation of the appropriate "exit route" will be determined in consultation with the creditors' committee.

Lehman Brothers International (Europe) (in administration)

Lehman Brothers Internatio
(Europe) (in administration)
25 Bank Street
London
E14 5LE

[name]
[address]

8 October 2008

Our reference: []

Dear Sir

Lehman Brothers International (Europe) (in administration)

I was appointed as Joint Administrator of Lehman Brothers International (Europe) ("LBIE") on 15 September 2008, together with Anthony Victor Lomas, Michael John Andrew Jervis and Dan Yoram Schwarzmann.

According to LBIE's records you are a client of LBIE and have a number of open positions with LBIE. A major priority of the Joint Administrators is to gain a comprehensive understanding of your relationship with LBIE and, in particular, to identify any monies and assets held by LBIE over which you may believe you have an interest.

To assist with this process a procedure has been discussed and agreed with the Financial Services Authority and approved by the High Court which has the objective of enabling the Joint Administrators to handle requests from clients with regard to client monies and assets on an equitable basis.

This process requires that the Joint Administrators individually review all accounts and positions with clients of LBIE, including considering all related and associated contractual arrangements.

To assist in this process, please provide confirmation of positions and balances held with LBIE as at 7.56am on 15 September 2008 (the time the Administration Order was made by the Court). You should provide information by Fund, security / balance setting out as much detail as possible per your records to enable reconciliation to data held by LBIE, including copies of any contractual agreements and other relevant documentation. Details of all terminated and closed positions since 07:56 15 September 2008 should also be provided, together with the basis of any valuations assumed in your calculations. For the avoidance of doubt 15 September 2008 will not necessarily constitute a valuation date. A suggested format is attached at the appendix to this letter.

Additionally, please provide an electronic version of all data with your reply, as this should assist in the reconciliation process. Any e-mailed responses and any queries regarding the information requested should be sent to the following e-mail address,

clientpositionresponses@lehman.com

An electronic version of this letter and the appendix are available at the following website address:

http://www.pwc.co.uk/eng/issues/Lehman_update_230908.html

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

Lehman Brothers International (Europe) (in administration)

Please direct any mailed responses for the attention of Cathy Stewart, Trust Property Team at the address above quoting our reference number. I have also sent this letter to you via electronic mail.

During the course of our work it may become necessary for our Trust Property team to write to you requesting further information. Please note that to deal with client money and asset issues appropriately the Administrators will not be in a position to deal with correspondence addressed directly to them.

You cannot rely on any information obtained after 07:56 15 September 2008 from Lehman's Live or any other Lehman's source.

We will continue to keep you informed of the progress being made via the PwC website. It is likely, however, that the process of reconciling client positions may take some time. We will update you on progress as the position becomes clearer.

You may also be receiving other correspondence from the Joint Administrators in your capacity as a possible creditor of LBIE. Please also respond to this and other correspondence as soon as possible.

Your assistance is appreciated.

Yours faithfully



SA Pearson
Joint Administrator

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

(2)

Confirmation of Positions and Balances with Lehman Brothers International (Europe) as at 07:56 BST 15th September 08 (Point of Administration of LBIE)

Please complete the following tables as applicable to your account with LBIE. A separate form should be completed for each account.

Account name:	
Account number:	

Net position with LBIE (USD):	
-------------------------------	--

Please confirm Equity positions as at 07:56 BST 15th Sept 08:

Equities	Stock Details:	Long or Short:	Nominal:	Nominal rebypo theated:	Price at 07:56 15th Sept 08:	Market Value (local currency):	FX Rate (USD):	Market Value (USD):	Comments	
Unique Identifier (e.g. SEDOL / CUSIP):										
Total:										

Please state any pending Equity buys/sells due for settlement post 07:56 BST 15th Sept 08:

Equities	Stock Details:	Buy / sell	Nominal:	Nominal rehypothecated:	Price at 07:56 15th Sept 08	Market Value (local currency):	Fx Rate (USD):	Market Value (USD):	Comments
Unique Identifier (e.g. SEDOL / Cusip):									
Total:									

Please confirm Derivatives (Futures, Options, Swaps, CFDs) positions as at 07:56 BST 15th Sept 08:

Derivatives Type (Future, Option, Swap, OTC, CFD):	Unique Identifier of underlying security (e.g. SEDOL/CUSIP):	Stock Details:	Nominal:	Long or short:	Price as at 07:56 15th Sept 08:	Interest accruals (local currency):	Interest accruals (USD):	FX Rate in USD:	Market Value (local currency):	Market Value (USD):	Comments
											Total

Please confirm cash balances as at 07:56 BST 15th Sept 08:

Cash balance	Account	Currency	Value (local currency)	FX rate	Value (USD)	Comments
		Total:				

Please confirm pending cash payments/receipts as at 07:56 BST 15th Sept 08:

Account	Description	Payment/ receipt	Date	Value (local currency)	Value (USD)	Value date	Comments
		Total:					

Please provide details of other corporate events that impact on your positions and balances:

Coupons, Dividends, Corporate actions, Interest and other fees		Event details:	USD impact on position:	USD impact on cash balance:
Event type e.g. coupon, dividend etc.	Position/asset:			
Total:				

Please provide details of all contractual agreements with LBIE:

Please provide details of any default notices that you have served to LBIE:

Is there any further information which you wish the Administrators to be aware of in relation to your account with LBIE?

Lehman Brothers International (Europe) (in administration)

Lehman Brothers Internatio
(Europe) (in administration)
25 Bank Street
London
E14 5LE

[name]
[address]

8 October 2008

Our reference: []

Dear Sir /Madam

Lehman Brothers International (Europe) (in administration)

I was appointed as Joint Administrator of Lehman Brothers International (Europe) ("LBIE") on 15 September 2008, together with Anthony Victor Lomas, Michael John Andrew Jervis and Dan Yoram Schwarzmann. LBIE is authorised and regulated by the Financial Services Authority ("FSA").

According to LBIE's records, you are a client of LBIE and have a number of positions with LBIE. A major priority of the Joint Administrators is to gain a comprehensive understanding of your relationship with LBIE and, in particular, to identify any monies and assets held by LBIE over which you may believe you have an interest.

To assist with this process a procedure has been discussed with the FSA and approved by the High Court which has the objective of enabling the Joint Administrators to handle requests from clients with regard to client monies and assets on an equitable basis.

This process requires that the Joint Administrators individually review all accounts and positions with clients of LBIE, including considering all related and associated contractual arrangements.

To assist in this process, please provide confirmation of your positions and balances held with LBIE as at 7.56am on 15 September 2008 (the time the Administration Order was made by the High Court) as soon as possible, and in any event, within 4 weeks of this letter. You should provide information by security / balance setting out as much detail as possible per your records to enable reconciliation to data held by LBIE, including copies of any contractual agreements and other relevant documentation. Details of all terminated and closed positions since 07:56 15 September 2008 should also be provided, together with the basis of any valuations assumed in your calculations. For the avoidance of doubt 15 September 2008 will not necessarily constitute a valuation date. A suggested format is attached at the appendix to this letter.

Lehman Brothers International (Europe) (in administration)

Additionally, please provide an electronic version of all data with your reply, as this should assist in the reconciliation process. Any e-mailed responses and any queries regarding the information requested should be sent to the following e-mail address:

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Please direct any mailed responses for the attention of Cathy Stewart, Trust Property Team at the address above quoting our reference number. During the course of our work it may become necessary for our Trust Property team to write to you requesting further information. Please note that to deal with client money and asset issues appropriately the Administrators will not be in a position to deal with correspondence addressed directly to them.

You cannot rely on any information obtained after 07:56 15 September 2008 from Lehman's Live or any other Lehman's source.

We will continue to keep you informed of the progress being made via the PwC website (see below). It is likely, however, that the process of reconciling client positions may take some time. We will update you on progress as the position becomes clearer.

You may also be receiving other correspondence from the Joint Administrators, e.g. in your capacity as a possible creditor of LBIE. Please respond to this and other correspondence as soon as possible.

Further information

For further information concerning the administration of LBIE and the relevant contact details, see the PwC website at the following address: <http://www.ukmediacentre.pwc.com>.

Should you require financial planning services from another provider in place of those provided by LBIE, we suggest that you contact the Institute of Financial Planning at www.financialplanning.org.uk or on 0117 945 2470, which may be able to assist you in locating and choosing another provider.

As you will appreciate, the Joint Administrators reserve all of their and LBIE's rights.

Your assistance is appreciated.

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

(2)

Lehman Brothers International (Europe) (in administration)

Yours faithfully

A handwritten signature in black ink, appearing to read 'SA Pearson', with a long horizontal flourish extending to the right.

SA Pearson
Joint Administrator

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

(3)

Please provide details of all contractual agreements with LBIE:

Is there any further information which you wish the Administrators to be aware of in relation to your account with LBIE?

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Lehman Brothers International (Europe) - client money and assets

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The joint administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE") wish to inform affected customers of LBIE about the steps that are being taken to identify and return client monies and assets held by LBIE.

Background

The Administrators treat the identification and return of client monies and assets ("Client Assets") of LBIE as a very important and urgent matter. A procedure for that identification has been agreed with the FSA, with whom the Administrators have been working very closely in relation to this aspect of the Administration. We set out below a brief description of that procedure, and conclude with an update on progress and an indication of a possible timetable for the return of Client Assets.

LBIE controls Client Assets through other institutions, and in principle it should be possible for these Client Assets to be returned to clients. However, prior to doing so the Administrators are obliged to ensure that all Client Assets are accessible by the Administrators and that they qualify to be treated as client monies or assets. Subject to these preconditions such Client Assets should, in due course, be available for return. In addition, in respect of each client for which Client Assets are held, the Administrators must ensure that there are no liabilities owed by the client which might give rise to an entitlement to withhold all or part of a return of the Client Assets in question. Those steps will ensure no creditors are given preference and is consistent with the Administrator's duties to preserve and realise the company's assets for its creditors.

Collecting the information required for these purposes is time consuming. The business conducted by LBIE is complex, with many hundreds of clients, in particular prime brokerage clients, dealing with, and receiving services from, a range of different business units within LBIE, requiring data and input from a number of different systems.

For certain business units such as prime brokerage clients should be aware that, in relation to Client Assets provided to LBIE, it was customary for LBIE to have a right of "re-hypothecation" or right of "use" (referred to below as a "right of use"). In effect that entitled LBIE to lend such securities in the stock loan or repo markets, with the result that the assets, once "used", were no longer held for the client on a segregated basis, and as a result the client may cease to have any proprietary interest in them.

Process

In summary, the process for the identification and return of Client Assets, which has been agreed with the FSA, involves the following key steps:

1. For those clients who have the benefit of client money protection, under the FSA rules, ascertain client money balances held with various institutions in aggregate and reconcile those balances to LBIE client records.
2. Ensure funds in (1) above are accessible by the Administrators for return.
3. Identify Client Assets in aggregate, and the manner in which the different types of assets are held. For example, assets may be registered in nominee names, held via an account holder in a clearing system and/or third party custodians may be used.
4. Check documentation with each client for whom Client Assets appear to be held, including prime brokerage agreements (and any side agreements thereto), netting agreements, and other relevant documents, to confirm that money received from or on behalf of a particular client is "client money" within the meaning of the FSA rules and to verify related security rights and set off rights in respect of Client Assets.
5. Reconcile the Client Assets by client to the client's claimed position, and identify whether the client has any relevant liabilities. If any such liabilities are identified, then to determine the extent to which such liabilities owed by the client may reduce the amounts properly returnable to the client. It is also necessary to analyse whether LBIE has exercised any "right of use" over Client Assets, and whether assets so used have ceased to be available.
6. In determining the amount potentially returnable, to take account of any unsettled transactions between the client and LBIE, and provide for any potential liabilities of the client resulting from such unsettled transactions.

Further steps may be identified as this process is conducted.

Timetable

To complete the above processes will take considerable time. Our current view is that this process could take several months to conclude. Once certain aspects of the process are completed, the Administrator may consider partial returns subject to conditions. We are working closely with the FSA in the conduct of this vital process. We will update clients about progress on an ongoing basis.

Further details relating to the administration are included in the PwC website www.pwc.co.uk

ENDS

Notes to Editors:

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. 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.

For more information contact:

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Lehman Brothers International (Europe) (in administration) – client money and assets update

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26/09/2008 10:00

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Following on from the statement issued on 21 September 2008, the joint administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE") wish to inform clients of LBIE that they are considering, in consultation with their legal advisors and the FSA, structures which may enable them to offer counterparties a partial distribution of monies and assets designated as Client Assets.

The Administrators hope to be in a position to provide further updates on these proposals in due course. Counterparties should understand that it is likely to take some weeks for these structures to be fully developed.

The Administrators appreciate and acknowledge the significant difficulties that are being faced by counterparties and can confirm that the identification and return of Client Assets remains a major priority.

ENDS

For more information contact:

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Lehman Brothers International (Europe) (in Administration) - Client assets update

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The joint administrators (the "Administrators") of Lehman Brothers International (Europe) (in Administration) ("LBIE") wish to update clients of LBIE about the position in relation to client monies and assets ("Client Assets") held by LBIE and what steps have been taken by the Administrators in this area. This update follows statements made by the Administrators on 21 and 26 September 2008.

In addition to addressing the issue of those Client Assets that in principle should be available to be returned to clients, the Administrators are very aware of the existence and issues faced by all of LBIE's unsecured creditors and their responsibilities to them. The Administrators have sought to adopt a system for dealing with Client Asset claims in an orderly and efficient manner and one which, while recognising the importance of dealing with Client Asset claims, enables them to act with proper regard to the interests of all creditors. In particular the Administrators wish to assure all creditors that their claims will be fairly and equitably treated.

This statement addresses only the position in relation to Client Assets. In order to ensure a planned and organized system for dealing with the large number of Client Asset claims the Administrators have designed a set of processes and procedures to deal with the claims in a logical, efficient and fair manner consistent with the performance of their primary functions of achieving a better result for LBIE's creditors as a whole than would be achieved on an immediate winding up.

The Administrators presented these procedures to the High Court on 7 October 2008, at which the FSA was also present, and have obtained an order approving these steps.

Background

Since their appointment, the Administrators have treated the identification and return of Client Assets of LBIE as a very important and urgent matter, recognising also that it is a complex, highly technical area. The Administrators fully appreciate the market issues being faced by counterparties and that subject to certain preconditions being met those assets that are properly Client Assets should be available to be returned to clients.

Against this background, the Administrators considered it appropriate to seek direction from the High Court on the development of appropriate procedures to be adopted to manage Client Asset claims.

The process

The process for the identification and return of Client Assets, which has been approved by the Court, is set out below.

General approach

The Administrators will:

- i. identify and take appropriate steps to gain control of all property of or held in the name of or otherwise to the order of Lehman Brothers International (Europe) ("LBIE") (in administration), whether money, securities or other contractual rights, that may be subject to trust or proprietary claims (the "Trust Property");
- ii. identify the entire population of counterparties that purport to have claims, rights or other interests in the Trust Property (the "Trust Claims");
- iii. seek to reconcile all of the data and information available to LBIE and the Administrators from the pre-administration records in relation to the Trust Property with the information supplied by counterparties, custodians and any other appropriate sources;
- iv. whether by agreement, directions from the Court or otherwise, reach a clear determination of the various legal issues that impact upon the validity of the Trust Claims and the rights of LBIE over the Trust Property;
- v. subject to directions from the Court, agree a procedure for making interim distributions of Trust Property to counterparties with valid Trust Claims;

vi. determine the basis upon which the costs and expenses of the Administrators in dealing with and determining all issues in relation to the Trust Property can be discharged from the proceeds of the Trust Property and apply for directions on such matters, as necessary; and

vii. determine the most expedient method of communicating with counterparties in relation to the procedure being adopted by the Administrators, the progress made towards the achievement of the defined objectives and the directions that may be given from time to time by the Court.

Method

The Administrators will:

i. deploy dedicated resource comprising partners and employees from PricewaterhouseCoopers LLP and Linklaters LLP (the "Trust Property Team"), to take responsibility for the further development and implementation of a plan designed to achieve the objectives set out in paragraph 1 above; and

ii. set up a discrete sub-committee to monitor the construction and implementation of this scheme and the efficiency and fairness of the methodology. This sub-committee will also review the principles applicable to prioritising the determination of the claims of the particular counterparties by identifying, where appropriate, high profile problems or hardship issues, to ensure that the overriding objective of treating all counterparties fairly is not prejudicial to the interests of a minority or that there is not otherwise a problem that requires specific and accelerated attention. This sub-committee will meet periodically (initially daily) to review the prioritisation and refine the process as events develop.

Key steps

The Trust Property Team will undertake inter alia the following functions:

i. design and install a new IT system onto which it will upload all of the data available from the internal systems of LBIE relating to client deposits and securities that may be Trust Property;

ii. implement a process to reverse or amend the LBIE records for failed or broken trades as a consequence of the Administration, to enable the Trust Property to be more fully identified;

iii. identify the impact of termination notices that have been served post-administration, validate these events and other activities of third parties and either review the clients' valuation of the impact of the termination or undertake a valuation of the impact of termination on the rights of LBIE under various contracts; and

iv. agree a protocol in relation to the implementation of corporate actions that may need to be undertaken in relation to Trust Property, for example, the exercise of voting rights, receipt of dividends, rights issues and other pre-emptive offers, that will have an impact on the ultimate value of the Trust Property.

The Trust Property Team will contact all of the third party custodians, agents, counterparties, exchanges and clearing houses ("Depots") where Trust Property may be located to obtain confirmation of the securities that are being held and to agree a procedure whereby the Administrators can have online access in relation to data regarding the securities and seek to obtain formal written confirmation of the position by security and by Depot. The Administrators will also seek to establish that they have complete or adequate control over the securities for the ultimate benefit of the counterparties with Trust Claims or LBIE and that any liens asserted by the Depots are assessed and valued. Once the data is available, the Trust Property Team will reconcile the books of LBIE to those of the Depots, by security and by Depot, with a view to identifying and resolving discrepancies. Where appropriate, this process will take account of the interests of LBIE in its "house accounts".

The Administrators will write to all of the counterparties who may have Trust Claims to obtain from them full details of the rights and claims they believe they have in relation to all forms of Trust Property. The Trust Property Team will seek to reconcile all of the data that is obtained in relation to Trust Property as a consequence of the exercise outlined in the paragraph above with the information obtained from counterparties.

Whilst the data reconciliation process is being undertaken, the Administrators have instructed Linklaters to devise a programme to determine by reference inter alia to the various contracts utilised by LBE in its dealings with all counterparties, the various categories of legal issues that will need to be determined before a proposal for the distribution of the Trust Property can be prepared. The Administrators will consider whether it is possible for this process to take place in parallel to the data collection exercises noted above, or whether it is more appropriate (in some cases) to wait until it is clear that all the legal issues identified need resolution in practice.

Prioritisation

The Administrators will, having taken due account of any views of the FSA, identify a set of principles that can be applied when considering prioritising claims, taking into account, where appropriate and consistent with their duties as administrators, the following factors, which include:

- i. the quality and timing of data being available to the Administrators;
- ii. the speed of response of counterparties in dealing with the Administrators' questions, coupled with the quality and accuracy of the data supplied, the complexity of the data and the legal issues relevant to the determination of a particular claim;
- iii. the number of claims that may be made to a particular class or category of Trust Property; the risk of a shortfall of Trust Property;
- iv. the cost efficiency and expediency of the relevant process; and
- v. market stability and confidence.

Further Directions

The Administrators may from time to time need to seek further directions from the High Court on this process and on particular issues arising from it. We will continue to keep you advised of developments.

Ends

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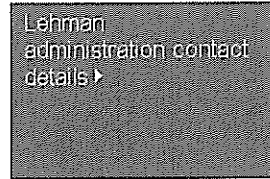
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Lehman Brothers International (Europe) (in administration) – client money and assets update 15/10/08

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This update follows statements made by the Administrators on 21 and 26 September, and 7 October 2008.

As part of the Court approved process for the identification and return of Client Money and Assets, the Administrators have now written to counterparties, who they currently consider may have Trust Claims, to obtain from them full details of the rights and claims they believe they have in relation to all forms of Trust Property.



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The confirmation will be used by the Administrators as part of the process of individually reviewing all accounts and positions with clients of LBIE. The letters tailored to Institutional clients and Private Investment Management clients are attached below:

[LBIE Institutional clients – confirmation of balances request.pdf](#)
[LBIE Private Investment Management clients – confirmation of balances request.pdf](#)

A suggested format for the confirmation has been appended to the letters.

If you believe that you are a client of LBIE who may have had Trust Asset Claims and hold open positions with LBIE, and have not received such a communication, then you should download the suggested format below and return via post or email. In any correspondence please state the full legal name and provide a contact name, postal address and e-mail address, if available.

- LBIE Institutional clients

[LBIE Institutional clients – confirmation of balances appendix.xls](#)

- LBIE Private Investment Management clients

[LBIE Private Investment Management clients – confirmation of balances appendix.xls](#)

Any information on positions or queries relating to the process should be directed to the following email address:
clientpositionresponses@lehman.com

or by post to Cathy Stewart, Trust Property Team, Lehman Brothers International (Europe) (in administration), 25 Bank Street, London, E14 5LE.

The Administrators may need to request further information from clients or make contact with them to obtain clarification particular issues arising from information provided. We will continue to keep you advised of developments.



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Lehman Brothers International (Europe) (in Administration) Client Money – Q&A

13/11/08

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1. Where did LBIE typically hold client money?

LBIE used the alternative method under the FSA Client Money rules, and pooled client monies in banks, as well as sub custodians, settlement agents, exchanges and clearing houses as permitted by FSA rules.

Accounts with the Bank of England have been established since Administration, and the process has commenced to start to recover (where appropriate) the monies from the various sources into centrally administered pools.

2. How is client money treated as at Administration?

Client money held by LBIE prior to administration ("Pre Administration Client Money") was held in a number of different accounts. At the event of LBIE's administration a 'primary pooling event' has taken place, which means that Pre Administration Client Money held by LBIE is pooled into a single client money pool, and a client's entitlement is then to a pro-rata share of this Client Money pool. This means that if there is any shortfall in the Pre Administration Client Money pool, then all clients who have a share in that pool will incur the shortfall proportionate to their original entitlement.

3. Are there known issues that could cause a potential shortfall in the Pre Administration Client Money?

Efforts are underway to calculate client entitlement to the Pre Administration Client Money pool, and recovering all monies held with third parties to constitute this pool. It will take some time before all positions are known and monies have been recovered, and therefore determining whether a shortfall exists.

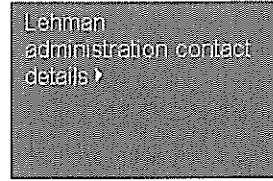
Nevertheless, it has been identified that, prior to the administration, US\$1 billion of client monies were deposited for LBIE with Lehman Brothers Bankhaus, a material proportion of the total Pre Administration Client Money held. On 15 September, Bankhaus was placed under the regulatory supervision of the German regulator, BaFin. While Bankhaus remained subject to this supervision, no action could be taken to recover any deposit made with Bankhaus. This moratorium was not an insolvency proceeding, but was imposed by BaFin to protect the assets of Bankhaus. In compliance with its duties under German law to make an announcement on the subject, BaFin announced on 28 October 2008 that depositors with Bankhaus were able to start submitting claims for their deposits to the German deposit protection fund. Then on 12 November, BaFin announced that insolvency proceedings had been commenced in relation to Bankhaus. Bankhaus' failure will materially impact both the ultimate level of client monies which LBIE will be able to distribute and the timing of the return of such monies to relevant clients.

The Administrators have been in contact with both BaFin and Bankhaus. FSA is also aware of the situation. All appropriate steps will continue to be taken in relation to the deposit.

In any event, FSA's rules provide that the proper costs of distribution of the client money pool will be borne from that pool on a first priority basis. This means that, even if all client monies are ultimately recovered by a firm, clients will bear a pro rata share of the distribution costs and therefore will normally experience some degree of shortfall.

4. Is client money received by LBIE in Administration treated differently than Client Money received prior to Administration?

LBIE in Administration continues to receive client money, such as income, dividends and redemptions of maturing client assets ("Post Administration Client Money"). Such money is treated differently to Pre Administration Client Money.







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The Post Administration Client Money shall be returned to the relevant client once all appropriate steps have been undertaken to establish client entitlement and appropriate systems and controls are in place to manage a transfer.


For Post Administration Monies received in relation to a Client Asset (i.e. dividend from an equity holding) establishing client entitlement will mean establishing whether the Client has entitlement to the Client Asset (see [Client Money and Assets update - 07/10/08](#) for further detail regarding Trust Property for the process the Administrators are undertaking to establish client asset entitlement and return of those assets).

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Lehman Brothers International (Europe) (in administration) - Market update on Client Money – 18/12/08

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The Joint Administrators continue to address the return of Client Money as a matter of urgency. However, there are a number of significant issues affecting the return of Client Money, which need to be fully resolved to ensure fairness to all Client Money claimants.

Lehman administration contact details ▶

Primary Pooling Event

Lehman Brothers International (Europe) ("LBIE") held Client Money in the ordinary course of business for certain clients. LBIE used the "alternative" method of segregating Client Money, which was permitted under the FSA's Rules. This method involves aggregating Client Money liabilities from LBIE business activities and segregating them as an equivalent cash amount. The appointment of Administrators led to a 'primary pooling event' in relation to Client Money then held by LBIE under the FSA's Rules. This means that Pre Administration Client Money held by LBIE is to be pooled into a single notional Client Money pool, and a client's entitlement is to a rateable share in this Client Money pool.

LBIE held client monies in banks, as well as clearing houses and others, as permitted by the FSA's Rules. The process to recover monies from these various sources into a centrally administered pool is ongoing and considerable progress has been made. Approximately US\$1.0 billion from a total of US\$2.1 billion segregated prior to LBIE's Administration has been recovered to date.

Lehman Brothers Bankhaus AG

US\$1 billion of client monies were deposited for LBIE with Lehman Brothers Bankhaus AG ("Bankhaus"), which was approximately 50% of the total Pre Administration Client Money held by LBIE. Bankhaus is an affiliate of LBIE and had been used to deposit client monies over the preceding year. On 12 November 2008 BaFin announced that insolvency proceedings had been commenced in relation to Bankhaus. There is currently considerable uncertainty surrounding the timing and extent of the recovery of the deposit of client monies. However, the Administrators have been in contact with BaFin, Bankhaus and the German insolvency administrator of Bankhaus to expedite the return of the Client Money. Furthermore, it may also be possible to make a claim against the German Deposit Protection Fund. The FSA is aware of the situation and all appropriate steps will continue to be taken in relation to the recovery of the Client Money deposit. The initial Bankhaus creditors meeting held under German insolvency proceedings is expected to be held some time in March 2009.

Segregated Amounts

Work is ongoing to investigate whether the amounts segregated prior to the Administration as Client Money by LBIE were correctly calculated. This work is going to take time and considerable resource, due to the complexities involved in LBIE's affairs. In particular the treatment of any over-segregated or under-segregated amounts and the impact this may have on the Client Money pool is not yet clear, and may require extensive legal analysis. A further issue that must be considered is the question of whether LBIE's complex calculations were correct in all aspects. This could have an impact on the claims against the Client Money pool.

Legal Issues

In addition there are a number of other legal issues that need to be resolved prior to any distribution of Client Monies. These include:

- ▶ valuation of clients' claims in the different currencies received by LBIE;
- ▶ how certain items included within Client Money in lieu of assets are to be treated; and
- ▶ the appropriate level of costs to be borne by Client Money claimants (i.e. the split of costs between the Client Money pool and the General Estate).

These issues will all have an impact on the timing and extent of the return of Client Monies to relevant clients. Until these and a number of other legal issues are resolved, it will not be possible to make any distributions to clients. The Administrators are actively taking steps to establish legal certainty on these important issues.

Way Forward

Significant progress has been made by the Administrators in respect of identifying Client Monies, retrieval of those monies from banks and others and identifying Client Money claimants as per LBIE's books and records. Work is ongoing to recover monies from Bankhaus and other third party sources, to understand the extent and potential impact on the Client Money pool of any over- and under-segregated amounts and to resolve a number of legal issues.

For the reasons outlined above it is unlikely that any form of Client Money distribution will be made within the next few months. The aim is to resolve these matters as quickly as possible, as a priority objective of the Administrators is to ensure that Client Monies are distributed as quickly as can be managed, and may include some form of interim distribution.

Regular updates will continue to be made on the Client Money pages of the LBIE (in administration) website as progress is made on the relevant issues.

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Lehman Brothers International (Europe) (in administration) – Update on Client Money and Client Assets held by Lehman Brothers Inc.

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SIPA customer claims - Action required

On 19 September 2008 (the "Filing Date"), the United States District Court for the Southern District of New York entered an Order granting the application of the Securities Investor Protection Corporation for issuance of a Protective Decree adjudicating that the customers of Lehman Brothers Inc. ("LBI") are in need of the protection afforded by the Securities Investor Protection Act of 1970, as amended ("SIPA"). James W. Giddens (the "Trustee") was appointed trustee for the liquidation of the business of LBI, and Hughes Hubbard & Reed LLP was appointed as counsel to the Trustee.

Lehman administration contact details [▶](#)

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On 1 December 2008, the Trustee informed customers of LBI who wish to be eligible for the maximum protection that may be afforded to them under SIPA that they must file claims with the Trustee by 30 January 2009. Claims filed in LBI's SIPA proceeding will be subject to the jurisdiction of the United States Bankruptcy Court for the Southern District of New York.

This statement is to notify you that, in addition to filing a claim on behalf of Lehman Brothers International (Europe) (in administration) ("LBIE") by the 30 January 2009 deadline, the Joint Administrators, acting as LBIE's agent and without any personal liability (the "Administrators"), intend to submit an omnibus claim on behalf of each of LBIE's customers whose cash, securities or other assets were (or should have been) held by LBI on the Filing Date. Note, however, the omnibus claim will not include cash, securities or other assets that were booked by customers directly with LBI, i.e. for a claimant that is a direct customer of both LBIE and LBI, LBIE's omnibus claim will only include cash, securities and other assets of such customer held by LBI through LBIE. The reasons that the Administrators are submitting claims on behalf of certain LBIE's customers as described above are to seek to preserve (i) each customer's right to obtain the maximum protection afforded under SIPA and (ii) the value of any security or other interest, if applicable, that LBIE may have over any proceeds of each customer's recovery from LBI's estate. LBIE cannot make any representation regarding actual recoveries to be obtained from LBI's estate in respect of any of its claims.

LBIE is undertaking an extensive review of its books and records to identify customers with potential claims against LBI. Notwithstanding LBIE's considerable efforts to retrieve and analyse as much customer data as possible, LBIE faces issues including missing or inaccessible records and IT data that complicate the compilation of claims. Consequently, LBIE cannot guarantee that the omnibus claim that it files on behalf of certain of its customers will identify every customer with securities, cash or other assets held by LBI through LBIE and neither the Administrators nor LBIE accept any liability arising out of any inaccuracies or deficiencies in the information provided. LBIE's customers may wish to pursue their rights in the SIPA proceeding by filing a claim on their own behalf with the Trustee as well.

Further, the Trustee has asked LBIE to provide customer signatures evidencing LBIE's authority to file claims on behalf of its customers. LBIE has agreed to use reasonable efforts to obtain customer signatures without prejudice to any argument that LBIE is authorised to file claims on behalf of its customers on any other basis. Additionally, the Trustee has indicated that receipt of responses to questions 4 – 11 on the SIPA claim form by LBIE's customers may help to expedite the Trustee's claim determination process. LBIE has prepared a customer authorisation form (the "Customer Authorisation") to evidence LBIE's authority to file a claim on each customer's behalf and to permit each customer to respond to the questions the Trustee has posed to each claimant in the SIPA claims process. The Administrators urge LBIE's customers to sign and return Customer Authorisations, duly completing questions 1 – 8 thereof, to the Administrators at the address set forth below as soon as possible. LBIE is advised that returning a signed Customer Authorisation to LBIE will not prejudice a customer's right to file a SIPA claim on its own behalf against LBI on or before 30 January 2009.

Copies of the Trustee's Notice of the SIPA claims process, claim forms, and other background information on the SIPA liquidation may be found at www.sipc.org under Proceedings/Liquidation and on the Trustee's website, www.lehmantrustee.com.





[Click here to download a copy of the Customer Authorisation.](#)

Executed Customer Authorisations should be sent as soon as possible to:

Cathy Stewart
Trust Property Team
Lehman Brothers International (Europe)
25 Bank Street
London
E14 5LE

Any questions regarding this information should be directed to clientpositionresponses@lehman.com

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