



**LB RE Financing No.3 Limited  
– in Creditors' Voluntary Liquidation**

**Joint Liquidators' seventh progress report to  
members and creditors, for the year ended 22  
July 2019**

**18 September 2019**

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# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2019**

## **Introduction**

This is the seventh annual progress report prepared by the Joint Liquidators ("Liquidators") of LB RE Financing No. 3 Limited ("LBREF3" or the "Company").

This report provides an update on the work that the Liquidators have undertaken and the progress made since their appointment, with particular focus on the progress made in the year ended 22 July 2019 (the "Reporting Period").

## **Appointment of Joint Liquidators**

On 23 July 2012, LBREF3 moved into Creditors' Voluntary Liquidation following the conclusion of the Administration on the same day. DA Howell, MJA Jervis and AV Lomas were appointed Joint Liquidators.

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed liquidators and that DA Howell and MJA Jervis cease to be liquidators of the Company.

Upon further application to the Court, an order was made on 2 July 2018 that JG Parr and AV Lomas cease to be liquidators and Edward Macnamara be appointed as Joint liquidator of the Company from 16 July 2018.

## **Asset realisations**

The current position with respect to the Company's assets is as follows:

### **Intercompany balances**

#### **(i) Storm Funding Limited**

In June 2012, LBREF3 submitted a claim against Storm Funding Limited ("Storm") comprising (a) a £6.2m claim in respect of an inter-company balance and (b) a €254.50m (£202.05m) claim in relation to Class A notes held by LBREF3 in a Special Purpose Vehicle known as Saphir 2 ("the Class A notes").

#### **(a) Intercompany balance**

In July 2015, Storm admitted LBREF3's £6.2m intercompany balance claim in full. In the Reporting Period, LBREF3 received an eleventh distribution totalling £33k, representing 0.53p in the £. Cumulatively, LBREF3 has received £2.56m from Storm in respect of this part of its claim, representing 41.67p in the £.

#### **(b) Class A notes**

As previously reported, in July 2016 a settlement was reached in relation to the Class A notes. Under the terms of the settlement, LBREF3's Class A notes claim was admitted for £147.35m, representing 80% of LBREF3's claim.

In the Reporting Period, LBREF3 received dividends totalling £781k in respect of its claim, being 0.53p in the £. To date, LBREF3 has received a cumulative sum of £61.4m in respect of this part of the claim representing, 41.67p in the £.

Since receipt of the above dividends, LBREF3's claims against Storm have been distributed in specie to its parent, and therefore LBREF3 will receive no further distributions from Storm.

# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2019**

## **(ii) Lehman Brothers International (Europe)**

Creditors will recall that LBREF3 received 100 pence in the pound in respect of its admitted claim of £1.78m against Lehman Brothers International (Europe) ("LBIE"), leaving its entitlement to post-insolvency statutory interest outstanding.

In July 2018, LBREF3 received £697k from LBIE, being its full entitlement to post-insolvency statutory interest. There will be no further recoveries from LBIE.

### **Outcome for creditors**

All known, unsecured creditor claims have been adjudicated, with claims totalling £1.03bn admitted to rank for dividend purposes. There are no secured or preferential creditors.

In September 2018, a third interim distribution totalling £1.1m was paid to unsecured creditors, equating to 0.1067p in the £. In May 2019, the Joint Liquidators declared and paid a fourth interim dividend of 0.0743 pence in the pound, by way of a distribution in specie of its claims against Storm, to the sole remaining unsecured creditor Lehman Brothers Holdings Inc. In total, £64.87m in cash has been distributed to unsecured creditors.

Having resolved the main issues in LBREF3's estate, the Liquidation is being kept open due to the availability of significant tax losses in the Company that other Lehman companies may be able to use.

### **Investigations**

Nothing has come to the Liquidators' attention during the Reporting Period to suggest that they need to do any more work in line with their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

### **Tax**

During the period the Company received statutory interest from LBIE. In accordance with the new loss relief rules brought in from 1 April 2017 this income can be part sheltered by the Company's existing brought-forward losses, with tax payable on the remaining taxable income at the current rate of 19%. As part of the Liquidators' strategy to bring the Liquidation to a conclusion, work has been undertaken during the period to consider the tax implications in respect of a distribution in specie of the company's receivables.

Given the significant tax losses available in the Company, the Liquidation is being kept open whilst work is undertaken to determine whether its losses can be used by other Lehman companies. This work is continuing.

# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2019**

## **Receipts and payments account**

An account of the receipts and payments in the Liquidation showing movements for the last 12 months to 22 July 2019, together with cumulative transactions since commencement of the Liquidation, is set out in Section 2 of this report.

## **Liquidators' expenses**

As required by Statement of Insolvency Practice 9 ("SIP9"), set out in Section 3 is a statement of expenses incurred by the Liquidators since their appointment, together with an estimate of future expenses.

## **Liquidators' remuneration**

In February 2015, the Liquidators requested and received approval from LBREF3's creditors for the Liquidators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Liquidators were also authorised to draw their remuneration to 30 November 2014 and to draw subsequent remuneration on account of their costs from time to time.

In accordance with SIP9, the following information is provided in Section 4 of this report:

- (i) An analysis of the Liquidators' time costs for the period 1 July 2018 to 30 June 2019, including the cumulative total time costs from the date of the Liquidators' appointment to 30 June 2019; and
- (ii) A summary of the Liquidators' time costs for the Reporting Period, including the key categories of work undertaken, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was undertaken because it was required by statute.

In accordance with the resolutions passed by LBREF3's creditors, the Liquidators have drawn remuneration totalling £1,182,825 plus VAT in respect of time costs incurred to 31 May 2019.

Time costs for the Reporting Period total £172k plus VAT, representing 356 hours at an average hourly rate of £484. Details of time costs previously incurred have been provided in earlier reports.

An estimate of the Liquidators' future time costs is set out in Section 5 of this report.

## **Liquidators' disbursements**

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs, statutory advertising and insolvency office holders' insurance. The Liquidators are not required to seek approval to draw Category 1 disbursements.

Category 2 disbursements are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying and communication facilities. They must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves the Liquidators' fees. The Liquidators' disbursements policy allows for all properly incurred disbursements to be recharged to the Liquidation.

In the year ended 22 July 2019, the Liquidators incurred Category 1 disbursements of £15. These have not been paid. No Category 2 disbursements were incurred.

# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2019**

## **Creditors' rights**

Creditors have the right to ask for information and challenge a liquidator's fees if they believe that they are too high. You can find an explanatory note online at:

[http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/2015/guide\\_to\\_liquidators\\_fees\\_oct\\_2015.ashx](http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/2015/guide_to_liquidators_fees_oct_2015.ashx)


Creditors can request a paper copy of the above guide free of charge by emailing [Lehman.affiliates@uk.pwc.com](mailto:Lehman.affiliates@uk.pwc.com).

## **Additional information**

Any creditor who requires further explanation in relation to any aspect of the Liquidators' progress report should contact [Lehman.affiliates@uk.pwc.com](mailto:Lehman.affiliates@uk.pwc.com). However, any request for further information regarding the Liquidators' remuneration or disbursements should be made in writing (Rule 18.9 of the IR 16).

## **Next report and enquiries**

The Liquidators will circulate their next report in approximately 12 months' time or at the end of the Liquidation, whichever is sooner. In the meantime, creditors with queries may contact Harmeet Harish on + 44 (0) 20 7583 5000.

Signed  .....  
GE Bruce  
Joint Liquidator

*GE Bruce and EJ Macnamara have been appointed as Joint Liquidators of LB RE Financing No.3 Limited. The Joint Liquidators are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

*The Joint Liquidators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

*The Joint Liquidators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Liquidators. Personal data will be kept secure and processed only for matters relating to the Joint Liquidators' appointment. Further details are available in the privacy statement on the [PwC.co.uk](http://PwC.co.uk) website or by contacting the Joint Liquidators.*

## 2. Receipts and payments account for the year ended 22 July 2019

	22 July 2019 (£)	Movements in Period (£)	23 July 2018 (£)
<b>Receipts</b> (Notes 1 and 2)			
Release of funds from the Administrators	54,918	-	54,918
Interest	13,542	-	13,542
Dividends from Storm Funding Limited	63,975,310	813,799	63,161,511
Dividends from Lehman Brothers International (Europe)	2,480,824	697,129	1,783,695
Sale of tax losses	1,785,612		1,785,612
Funds from Lehman Brothers UK Holdings Limited	2,022		2,022
<b>Total receipts</b>	<b>68,312,228</b>	<b>1,510,928</b>	<b>66,801,300</b>
<b>Payments</b>			
Legal fees	177,873	499	177,374
Employee wages and associated costs	346,799	-	346,799
IT costs	5,741	-	5,741
Statutory costs	36,327	21,078	15,249
Bank charges	25	-	25
Former Joint Administrators' final remuneration	19,761	-	19,761
Joint Liquidators' remuneration (Note 3)	1,182,825	171,950	1,010,875
Joint Liquidators' category 1 disbursements	745	-	745
Joint Liquidators' category 2 disbursements	20,000	-	20,000
Insurance	85	-	85
Irrecoverable VAT (Note 4)	286,583	38,705	247,878
<b>Total payments</b>	<b>2,076,764</b>	<b>232,232</b>	<b>1,844,532</b>
<b>Total receipts less total payments</b>	<b>66,235,464</b>	<b>1,278,696</b>	<b>64,956,768</b>
<b>Distributions</b>			
First distribution to unsecured creditors of 5.425p in the £, declared 7 September 2016	56,114,662	-	56,114,662
Cash distribution made to minority creditor on 14 November 2016 (Note 5)	20,000	-	20,000
Second distribution to unsecured creditors of 0.738p in the £, declared 16 March 2017	7,627,629	-	7,627,629
Third distribution to unsecured creditors of 0.1067p in the £, declared 12 September 2018	1,103,299	1,103,299	-
Fourth distribution to unsecured creditors (in specie) of 0.0743p in the £, declared 3 May 2019	-	-	-
<b>Total distributions</b>	<b>64,865,590</b>	<b>1,103,299</b>	<b>63,762,291</b>
<b>Total</b>	<b>1,369,874</b>	<b>175,397</b>	<b>1,194,477</b>
<b>Cash balances</b>			
HSBC current account	1,369,874	175,397	1,194,477
<b>Total cash</b>	<b>1,369,874</b>	<b>175,397</b>	<b>1,194,477</b>

### Notes:

- 1) Statement of Affairs figures have not been provided as the Liquidation follows an administration.
- 2) All of the Company's assets are uncharged, there being no secured creditors.
- 3) Joint Liquidators' remuneration paid in the reporting period covers the period from 1 June 2018 to 31 May 2019
- 4) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- 5) A cash distribution of £20,000 was made in November 2016 to LBREF3's minority creditor in lieu of their share of any future distributions made.

### 3. Joint Liquidators' expenses

The table below provides details of the Liquidators' expenses. Expenses are defined as amounts payable by the Liquidators from the estate; they include the Liquidators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities that may be payable as a Liquidation expense, other than VAT, as amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account in Section 2 of this report, which shows expenses actually paid during the period and the total paid to date. In estimating future expenses, assumptions have been made relevant to the annual run rate where appropriate.

	<b>Brought forward from preceding period</b>	<b>Paid in the period</b>	<b>Cumulative paid</b>	<b>Incurred and not paid</b>	<b>Estimated future</b>	<b>Anticipated total</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>
Legal fees	178	-	178	11	37	226
Employee wages and associated costs	347	-	347	-	4	351
IT costs	6	-	6	-	-	6
Statutory costs	15	21	36	-	10	46
Former Joint Administrators' final remuneration	20	-	20	-	-	20
Joint Liquidators' remuneration and disbursements	1,032	172	1,204	6	150	1,360
Irrecoverable VAT	247	39	286	3	39	328
<b>Total</b>	<b>1,845</b>	<b>232</b>	<b>2,077</b>	<b>20</b>	<b>240</b>	<b>2,337</b>

Sums have been rounded to the nearest £1k.

An explanation of the key issues remaining is provided in Section 4 of this report.



## 4. Joint Liquidators' time costs for the period 1 July 2018 to 30 June 2019

### Charging and disbursements policy

Time is charged to the Liquidation by reference to the time properly given by the Liquidators and their staff in attending to matters arising in the Liquidation. The minimum unit for time charged by the Liquidators and their staff is 0.05 of an hour.

It is the Liquidators' policy to delegate the routine administration of the Liquidation to junior staff in order to maximise the cost effectiveness of the work performed. These staff have been supervised by senior staff and the Liquidators. Any matter of particular complexity or significance that has required responsibility of an exceptional kind has also been dealt with by senior staff or the Liquidators.

Set out below are the maximum charge-out rates per hour for the Liquidators' staff actually or likely to be involved on the assignments from 1 July 2017. Time is charged by reference to actual work carried out on the assignment. There has been no allocation of any general costs or overhead costs.

Specialist departments within PricewaterhouseCoopers LLP, such as tax, VAT, property and pensions, sometimes charge a number of hours should the Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour.

In common with all professional firms, the scale rates used by the Liquidators may increase to cover annual inflationary cost increases. As such, a further increase in the rates became effective on 1 January 2019.

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr		Max £/hr	
Grade	From 1 July 2017	From 1 January 2019	From 1 July 2017	From 1 January 2019
Partner	935	935	1312	1445
Director	820	820	1152	1325
Senior Manager	548	590	969	1020
Manager	462	510	707	735
Senior Associate	386	425	525	545
Associate/Support Staff	245	265	245	290

#### 4. Joint Liquidators' time costs for the period 1 July 2018 to 30 June 2019

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	33.55	26,205	32.10	12,422	3.95	996	69.60	39,623
Strategy and planning	4.70	9,028	79.20	27,258	8.60	3,216	-	-	92.50	39,502
Creditors and distributions	-	-	67.75	34,062	24.40	8,533	-	-	92.15	42,595
Statutory and other compliance	4.65	6,314	31.40	22,845	45.00	13,021	-	-	81.05	42,180
Tax and VAT	4.90	898	11.25	6,443	5.05	1,206	-	-	21.20	8,547
<b>Grand total for the period 1 July</b>										
<b>2018 to 30 June 2019</b>	<b>14.25</b>	<b>16,240</b>	<b>223.15</b>	<b>116,813</b>	<b>115.15</b>	<b>38,398</b>	<b>3.95</b>	<b>996</b>	<b>356.50</b>	<b>172,447</b>
<b>Average hourly rate for the 12 month period to 30 June 2019</b>										<b>484</b>
<b>Cumulative total to 30 June 2019</b>										<b>1,188,027</b>

Notes:

- (i) The cumulative total refers to the time costs incurred to 30 June 2019, of which £1,182,825 plus VAT has been paid to date.

## **4. Joint Liquidators' time costs for the period 1 July 2018 to 30 June 2019**

The following narrative summarises the work undertaken by the Liquidators and their staff during the period.

### **Accounting and Treasury - £39,623**

An essential function for the management of funds held by the Liquidators on behalf of the Company, the Liquidators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments (where applicable) for the benefit of the Company's creditors.

Activities include:

- Monitoring the flow of funds into the bank account;
- Processing receipts and payments and coding of movements;
- Coding movements in and out of the bank accounts;
- Updating bank details in order to ensure receipt of distribution from LBIE;
- Reconciling bank accounts for the purposes of statutory reporting; and
- Preparing monthly time costs in support of billing and statutory reporting.

### **Strategy and Planning - £39,502**

The Liquidators and their staff have invested a significant proportion of their time in the planning and delivery of their strategy for the progression of the Liquidation.

Activities include:

- Reviewing and implementing the Liquidation strategy;
- Updating strategy documents;
- Discussions with stakeholders in regards to this strategy;
- Reviewing financial information;
- Finalising matters relating to the transfer of shares of LBREF3 to LB RE Financing No1 Limited from LB RE Financing No.2 Limited;
- Liaising with key Lehman staff and legal advisors in respect of case strategy;
- Dealing with matters relating to the distribution in specie; and
- Regular team meetings to update on case progression.

### **Creditors and distributions - £42,595**

Activities include:

- Maintaining and updating the creditor claims agreement database;
- Facilitating and arranging payment of the third interim distribution;
- Obtaining and reviewing professional advice in relation to distribution in specie; and
- Executing the distribution in specie of LBREF3's remaining assets.

### **Statutory and Compliance - £42,180**

The following tasks were undertaken in accordance with the Liquidators' statutory obligations or internal compliance:

- Preparation and circulation of the Liquidators' sixth progress report to creditors;
- Preparation of the Liquidators' six monthly review summaries in accordance with professional requirements;
- Updating the dedicated LBREF3 website with the progress report;
- Preparation of receipts and payments account for report to creditors;

#### **4. Joint Liquidators' time costs for the period 1 July 2018 to 30 June 2019**

- Preparation of detailed remuneration summary;
- Maintaining case files and the Liquidation database; and
- Statutory filings at Companies House and Court.

#### **Tax and VAT - £8,547**

The following tasks were undertaken in accordance with the Liquidators' statutory obligations or internal compliance. In addition, certain tasks were undertaken for the benefit of creditors.

Activities include:

- Preparing analysis of the tax implications in respect of income received and the distribution in specie;
- Quarterly update meetings;
- Performing routine administrative tasks;
- Dealing with internal compliance matters; and
- Preparing narrative for the Joint Liquidators' sixth report.

## 5. Joint Liquidators' estimate of future time costs

The Liquidators estimate that their future time costs and disbursements to complete the Liquidation will be circa £0.15m, analysed as follows:

	£'000
Accounting and Treasury	20
Strategy and Planning	25
Creditors and distributions	30
Statutory and Compliance/Tax and VAT	75
	<hr/> 150

The above figures assume that:

- Time costs relating to care and maintenance of the case will continue to be incurred at a similar rate to the reporting period; and
- There will be a further cash distribution to unsecured creditors.

### Relationships

The Liquidators have no business or personal relationships with the parties who approve their fees or who provide services to the Liquidation where the relationship could give rise to a conflict of interest.

### Details of subcontracted work

Certain centralised services are undertaken on behalf of LBREF3 by employees retained by LBIE and LB SF Warehouse Limited. This includes the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LBREF3 on a time costs basis and are invoiced directly to the estate. The services undertaken by LB SF Warehouse Limited are to provide specialist input regarding various matters relating to the Company.

### Legal and other professional firms

The Liquidators have instructed the following professionals on this case. The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services:	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
	<i>Dentons UKMEA LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
Asset realisations:	<i>LB SF Warehouse Limited</i>	<i>Prior/Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Liquidators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment. The Liquidators are satisfied that the level of legal costs are appropriate.