



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

**Joint Liquidators' eighth progress report to  
members and creditors, for the year ended 22  
July 2020**

**17 September 2020**

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### ***Reliance on data:***

***We caution creditors against using data in this report as a basis for estimating the value of their claims or their likely eventual entitlement to payment.***

***LB RE Financing No. 3 Limited, the Liquidators, their firm, its members, partners, staff and advisers accept no liability to any party for any reliance placed upon this report.***

# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2020**

## **Introduction**

This is the eighth 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 2020 (the "Reporting Period").

## **Appointment of 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 ("Storm")**

In June 2012, LBREF3 submitted a claim against Storm comprising (a) a £6.19m 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 £6.19m intercompany balance claim in full. Dividends received from Storm in respect of this claim totalled £2.58m 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. Dividends received from Storm in respect of this claim totalled £61.4m representing 41.67p in the £.

The Liquidators distributed in specie LBREF3's claims against Storm to its parent, Lehman Brothers Holdings Inc ("LBHI") as the fourth interim distribution. Accordingly, any future dividends from Storm will be paid directly to LBHI.

## **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2020**

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

Creditors will recall that LBREF3 received 100 pence in the pound in respect of its admitted claim of £1.78m against 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.

Total cash distributions of c.£64.87m have 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 tax computations for the years ended 23 July 2018 and 23 July 2019 were prepared in order to bring the tax affairs of the Company up to date.

Given the significant tax losses available in the Company, the Liquidation is being kept open to obtain value for these losses from other Lehman estates.

### **Receipts and payments account**

An account of the receipts and payments in the Liquidation showing movements for the last 12 months to 22 July 2020, together with cumulative transactions since commencement of the Liquidation, is set out in Section 2.

### **Liquidators' expenses**

Statement of Insolvency Practice 9 ("SIP9") was revised with effect from 1 December 2015 and applies to all open insolvency cases.

In accordance with SIP9, there is a statement of the expenses that the Liquidators have incurred from the date of their appointment to 22 July 2020, together with an estimate of future expenses in Section 3.

# **1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2020**

## **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 2019 to 30 June 2020, including the cumulative total time costs from the date of the Liquidators' appointment to 30 June 2020; 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 £1,262,861 plus VAT in respect of time costs incurred to 30 April 2020.

Time costs for the Reporting Period total £106k plus VAT, which represents 147 hours at an average hourly rate of £719. 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 Reporting Period, no Category 1 or 2 disbursements were incurred.

# 1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2020

## 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-guides/creditors-guide-liquidators-fees-final.ashx?la=en>

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).

## Future reports

The Liquidators will circulate their next report in approximately 12 months' time or at the end of the Liquidation, whichever is sooner.



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 2020

	22 July 2020 (£)	Movements in Period (£)	22 July 2019 (£)
<b>Receipts</b> (Notes 1 and 2)			
Release of funds from the Administrators	54,918	-	54,918
Interest	13,546	4	13,542
Dividends from Storm Funding Limited	63,975,310	-	63,975,310
Dividends from Lehman Brothers International (Europe)	2,480,824	-	2,480,824
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>68,312,232</b>	<b>4</b>	<b>68,312,228</b>
<b>Payments</b>			
Legal fees	187,497	9,624	177,873
Employee wages and associated costs	346,799	-	346,799
IT costs	5,741	-	5,741
Statutory costs	36,327	-	36,327
Bank charges	25	-	25
Former Joint Administrators' final remuneration	19,761	-	19,761
Joint Liquidators' remuneration (Note 3)	1,262,861	80,035	1,182,825
Joint Liquidators' category 1 disbursements	1,121	376	745
Joint Liquidators' category 2 disbursements	20,000	-	20,000
Insurance	85	-	85
Irrecoverable VAT (Note 4)	304,590	18,007	286,583
<b>Total payments</b>	<b>2,184,807</b>	<b>108,042</b>	<b>2,076,764</b>
<b>Total receipts less total payments</b>	<b>66,127,425</b>	<b>(108,039)</b>	<b>66,235,464</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>-</b>	<b>64,865,590</b>
<b>Total</b>	<b>1,261,835</b>	<b>(108,039)</b>	<b>1,369,874</b>
<b>Cash balances</b>			
HSBC current account	1,261,835	(108,039)	1,369,874
<b>Total cash</b>	<b>1,261,835</b>	<b>(108,039)</b>	<b>1,369,874</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 30 June 2019 to 31 May 2020.
- 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 Reporting Period</b>	<b>Cumulative</b>	<b>Incurred in Reporting Period</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	10	188	-	38	226
Employee wages and associated costs	347	-	347	-	4	351
IT costs	6	-	6	-	-	6
Statutory costs	36	-	36	-	10	46
Former Joint Administrators' final remuneration	20	-	20	-	-	20
Joint Liquidators' remuneration and disbursements	1,204	80	1,284	106	120	1,404
Irrecoverable VAT	286	18	304	21	34	338
<b>Total</b>	<b>2,077</b>	<b>108</b>	<b>2,185</b>	<b>127</b>	<b>206</b>	<b>2,391</b>

Sums have been rounded to the nearest £1k.



#### 4. Joint Liquidators' time costs for the period 1 July 2019 to 30 June 2020

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	9.45	6,570	10.05	4,626	3.30	903	22.80	12,099
Strategy and planning	0.10	1,260	4.80	3,751	1.60	663	-	-	6.50	5,674
Creditors and distributions	-	-	-	-	-	-	-	-	-	-
Statutory and other compliance	4.30	3,612	16.10	10,967	43.30	19,189	0.10	17	63.80	33,785
Tax and VAT	2.20	5,502	19.65	25,501	19.10	13,754	13.30	9,569	54.25	54,326
<b>Grand total for the period 1 July 2019 to 30 June 2020</b>	<b>6.60</b>	<b>10,374</b>	<b>50.00</b>	<b>46,789</b>	<b>74.05</b>	<b>38,232</b>	<b>16.70</b>	<b>10,489</b>	<b>147.35</b>	<b>105,884</b>
<b>Average hourly rate for the 12 month period to 30 June 2020</b>										<b>719</b>
<b>Cumulative total to 30 June 2020</b>										<b>1,293,911</b>

Notes:

- (i) The cumulative total refers to the time costs incurred to 30 June 2020, of which £1,262,861 plus VAT has been paid to date.
- (ii) Time costs are net of VAT.
- (iii) The maximum specialist partner rate is used by exception and only where specific circumstances require that level of specialism.

## **4. Joint Liquidators' time costs for the period 1 July 2019 to 30 June 2020**

### **Accounting and treasury - £12,099**

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 including review and approval thereof and coding of movements; and
- Reconciling bank accounts for the purposes of statutory reporting.

### **Strategy and planning - £5,674**

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

Activities include:

- Reviewing, implementing and updating the Liquidation strategy;
- Discussions with stakeholders regarding this strategy;
- Reviewing and maintaining financial information; and
- Regular team meetings to update on case progression.

### **Statutory and other compliance - £33,785**

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

- Preparing monthly time cost reports in support of the Liquidators' billing;
- Preparing and circulating the Liquidators' seventh progress report to creditors and Companies House;
- Preparing the Liquidators' internal six-monthly reviews in accordance with professional requirements;
- Managing and updating communications on the Company's website;
- Maintaining and managing case files, records and the Company's database; and
- Dealing with other ad-hoc compliance and statutory tasks.

### **Tax and VAT - £54,326**

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;
- Review of the tax grouping provisions;
- Analyse and evaluate the value that the Company can obtain from its carry forward losses;
- Preparing outstanding tax returns;
- Quarterly update meetings;

#### **4. Joint Liquidators' time costs for the period 1 July 2019 to 30 June 2020**

- Performing routine administrative tasks;
- Dealing with internal compliance matters; and
- Preparing narrative for the Liquidators' seventh report.

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

The Liquidators estimate that their future time costs and disbursements to complete the Liquidation will be circa £120k, analysed as follows:

	£'000
Accounting and Treasury	10
Strategy and Planning	25
Creditors and distributions	15
Statutory and Compliance/Tax and VAT	70
	<hr/> 120

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.