



London
STOCK EXCHANGE

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24 September 2008

**For the attention of the
chairman/senior partner/compliance officer,
all member firms**

N18/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – IN DEFAULT – SUBMISSION OF UNSETTLED TRADE DETAILS BY MEMBER FIRM COUNTERPARTIES

1. The Exchange would like to thank those member firms which have already returned details of their unsettled non-CCP on Exchange trades with Lehman Brothers International (Europe) (“Lehman” or “the defaulter”). The Exchange is acknowledging receipt of each spreadsheet and will be contacting member firms if there are any questions arising.
2. The Exchange will be conducting a process of reconciling data received from member firms with its own records, those of Lehman and those of the various Central Securities Depositories (“CSDs” e.g. Euroclear UK and Ireland).
3. The Exchange will provide confirmation of the results of this reconciliation process as soon as practicable. This will identify those trades that are subject to the default procedures under the Rules of the London Stock Exchange (the “rules”).
4. Clearly, the speed and effectiveness of the Exchange’s reconciliation process is dependent on a number of factors including the provision of the necessary information by all parties concerned and the quality and consistency of that information. The Exchange is already finding some discrepancies that will have an impact on the reconciliation process (for example, trades in CREST marked with the Exchange as the Trade System of Origin (an “S” marker) where no trade report has been received by the Exchange in respect of those trades).

5. Once the reconciliation has been completed, the Exchange will establish the net amount payable by a counterparty to the defaulter, or by the defaulter to a counterparty, in respect of all Exchange market contracts, using the hammer price fixed by the Default Official for each security. This net amount will be certified by the Exchange and may be proved as a debt by the defaulter or counterparty, as applicable.
6. Member firms should continue to take such steps as they see fit to manage their likely risk exposure during the period until the Exchange produces its net amount certificates.

Other information

7. The Exchange has received a number of enquiries from member firms regarding their transactions with non-member firm clients, where the client used Lehman as a custodian. Although the default will have an impact on the ability of such persons to obtain stock held by Lehman, this custodian relationship is not a Stock Exchange market contract under the default procedures of the rules.
8. Any queries on this Notice should be addressed to either:

John Newbury, Trading Services, telephone +44 20 7797 1615 (STX 31615)
email: jnewbury@londonstockexchange.com; or

Rachael Hanley, Trading Services, telephone +44 20 7797 3483 (STX 33483)
email: ghanley@londonstockexchange.com.

Nick Bayley
Head of Trading Services

This Stock Exchange Notice will be available on the website at
<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnotices/stockexchangenotices2008.htm>

Calls to London Stock Exchange plc may be recorded to enable the Exchange to carry out its regulatory responsibilities.