



London
STOCK EXCHANGE

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

N19/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – IN DEFAULT – INFORMATION FOR NON MEMBER COUNTERPARTIES AND THEIR CUSTODIANS

1. This guidance is applicable to non-member clients and counterparties (“counterparties”) and their custodians who have unsettled transactions with Lehman Brothers International (Europe) (“Lehman” or “the defaulter”).
2. **Application of Exchange Default Rules**
With effect from 11:00 on 15 September 2008, Lehman was declared a defaulter on the Exchange and the provisions of the Exchange’s default rules contained within the Rules of the London Stock Exchange (“the Rules”) came into effect in respect of all unsettled market contracts, as defined. The default rules, incorporating paragraphs D010 to D200 of the Rules inclusive, are available on the website at <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>. Non-members who believe they have unsettled on-Exchange transactions with Lehman are advised to familiarise themselves with the relevant paragraphs of the Rules. The Exchange confirmed in a subsequent Stock Exchange Notice (N13/08) that it had been advised by Lehman that all its unsettled on-Exchange transactions were undertaken in a principal capacity.
3. **Transactions subject to the Default Rules**
Only transactions effected on the Exchange (“Stock Exchange market contracts”) will be subject to the default rules and procedures. Trades executed automatically on an Exchange order book (e.g. SETS) are deemed to be Stock Exchange market contracts as described in paragraph 2000 of the Rules. However transactions executed away from an Exchange order book must be trade reported to the Exchange in accordance with paragraphs 3000 and 3010 of the Rules in order for them to be deemed a Stock Exchange market contract. In the case of a Lehman trade with a non-member counterparty, Lehman would

have therefore had to trade report that transaction to the Exchange.

If a non-member counterparty had a standing instruction with Lehman that it wanted all of its transactions to be subject to the Rules, or that it gave similar instructions on a trade by trade basis, then it is likely that Lehman would have reported to the Exchange.

Where no such instructions have been agreed, then it is likely, based on the information provided by Lehman, that any trade in an EU regulated market security will have been reported by Lehman as an OTC trade and would not therefore be an on Exchange transaction. In contrast, trades in AIM securities and International Order Book (“IOB”) securities should have been reported to the Exchange as on Exchange transactions.

4. **Transactions Cleared through a CCP**

It is important to note that where the defaulter’s market side transaction was novated to a central counterparty, this will be subject to the default procedures for that central counterparty, in accordance with rule D115.5(2). In addition, all settled contracts prior to the declaration of the default do not fall under the default rules and procedures.

5. **Reconciliation and Net Amount Certificate**

To assist the Exchange in its reconciliation of unsettled Stock Exchange market contracts, those non-members who believe they may have unsettled on-Exchange transactions with Lehman should complete and return the spreadsheet available on the Exchange’s website at:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/non-members/unsettled-lehm-trades-non-members.xls> This information should be returned to the Default Official (defaultofficial@londonstockexchange.com) as soon as possible.

Please ensure you provide full contact details, including name, address, phone and fax numbers and email address and your Lehman client reference(s) within the spreadsheet that is submitted to the Exchange.

6. **Hammer Prices**

The Exchange has been working on fixing hammer prices for the securities in which Lehman has unsettled Stock Exchange market contracts that were not intermediated by a central counterparty. A list of the hammer prices fixed so far is available on our website: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/hammer-prices/hammer-prices.htm> The Exchange will add hammer prices to this list as and when they are set and will issue a Stock Exchange Notice and Service Announcement to communicate that a new version of the list is available. The latest version can be identified by way of the version number and date of the excel spreadsheet (e.g. V2 18-09-08). All versions of the hammer price list will remain available on the website. The Exchange will highlight which securities have been added by including a “Date Added” column in the hammer price spreadsheet. These additions will also be identified in the Stock Exchange Notice. Further details are included in paragraphs D130 to D133 of the Rules.

7. **Exchange Website**

As noted above, the Exchange has established a dedicated webpage which will be used as an information point for member firms involved in the Lehman default process: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/lehman-brothers-default.htm> It also provides useful information for counterparties to Lehman trades who are not members of the Exchange.

8. **Further updates**

Interested non-members should keep themselves informed on developments by registering to receive Stock Exchange Notices via the Exchange website at <http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnoticesnew/>.

9. 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/stockexnoticesnew/>.

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