



London
STOCK EXCHANGE

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25 September 2008

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

N20/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – IN DEFAULT – OUTPUTS OF THE DEFAULT PROCEDURES AND CLARIFICATION OF THE TRANSACTIONS INCLUDED WITHIN THE PROCEDURES

1. This Stock Exchange Notice provides information regarding the default process underway with respect to Lehman Brothers International (Europe) (“Lehman” or “the defaulter”) and the output that will result from the operation of the Exchange’s default procedures. It also explains the implications for member firms that continue to settle previously unsettled non-CCP on Exchange trades with the defaulter.

Outputs of the Exchange’s default procedures

2. The operation of the Exchange’s default procedures, in accordance with the provisions of the Companies Act 1989, is designed to produce a net sum calculation of the liabilities owed to and by the defaulter with respect to each of its counterparties to unsettled non-CCP on Exchange trades (both member firms and non-member counterparties). Under the Rules of the London Stock Exchange (“the rules”), the Exchange will determine the net amount payable between Lehman and each of its counterparties in respect of unsettled on Exchange trades as at the time of default (11:00 hours on Monday, 15 September 2008).
3. In accordance with paragraph D121 of the rules, this net amount will be certified by the Exchange and may be proved as a debt by the defaulter or counterparty, as applicable. Following this certification, it is for the defaulter and its counterparties to organise the associated payments. The Exchange is not authorised to engage in the payment process and its role in the default will cease once it certifies the net amounts payable.

Post default settlement of trades with Lehman

4. As set out in Stock Exchange Notice N10/08, pursuant to the operation of paragraph D140 of the rules, the obligations of the defaulter and its counterparties to deliver and pay against delivery under their unsettled market contracts are discharged and replaced by an obligation on one of them to pay to the other the net amount calculated in accordance with paragraphs D141 to D144 of the rules. On that basis, Notice N10/08 made it clear that member firms should ensure that no further settlement of their on-Exchange transactions with Lehman took place.
5. The Exchange is aware that some trades between Lehman and its counterparties have settled in The Depository Trust Company subsequent to the Exchange's declaration of default at 11:00 hours on 15 September 2008.
6. Member firms should be aware that such settlements will not affect in any way the Exchange's calculation of the net amounts due between the defaulter and its counterparties. The Exchange will continue to calculate the net sums payable to/by Lehman based on the trades that were unsettled at the time of default, and no account will be taken in the Exchange's calculation of subsequent settlement of trades or other actions taken by member firms or counterparties in relation to cash or stock held.
7. The Exchange understands that counterparties to Lehman have to manage any resultant market risk, e.g. by trading out of positions. The default process described above will determine a net cash settlement amount for all non-CCP on Exchange transactions unsettled at the time default was declared and this will not take account of such trading.
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/stockexchangefinancialnotices2008.htm>

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