



London
STOCK EXCHANGE

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

N24/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – IN DEFAULT – LENDING ARRANGEMENTS

1. This Notice sets out the position in relation to unsettled lending arrangements concluded on the London Stock Exchange (“the Exchange”) with Lehman Brothers International (Europe) (“Lehman” or “the defaulter”).

On Exchange lending arrangements

2. The Exchange identifies lending arrangements as being conducted on Exchange in accordance with rule 3001 of the Rules of the London Stock Exchange (“the rules”). As a result, only those CREST settlement instructions for lending arrangements that have a Trade System of Origin of “S” will be deemed as having been conducted on Exchange.

Legal agreement

3. Prior to entering into any lending arrangement, member firms are required under the rules to enter into an agreement in writing with the other party. The Exchange has authorised standard forms of agreement for this purpose (e.g. the Global Master Securities Lending Agreement and the Master Equity & Fixed Interest Stock Lending Agreement).

Default rules

4. In accordance with rules D160 to D163, upon declaration of default in respect of a member firm which is a party as principal to an unsettled lending arrangement, all unperformed obligations of the defaulter and the counterparty are discharged and replaced by an obligation on one of them to pay to the other the amount, if any, calculated in accordance with the rules D160.1 – 160.3.

5. These rules provide that:
- the value of securities to be delivered by each party shall be established in accordance with the agreement regulating lending procedures between them;
 - the value of cash payments to be made by each party shall be established in accordance with the agreement regulating lending procedures between them; and
 - on the basis of those values, an account shall be taken as at the time of the declaration of default, of what is due from each party to the other and the sums due from one party to the other shall be offset against the sums due from that other and only the balance of the account shall be payable by the party having the claim valued at the lower amount pursuant to these provisions.
6. The provisions of Rule D160.1 will apply notwithstanding any requirement in the agreement regulating lending procedures that the counterparty must provide any notification to the defaulter or may elect to withhold any delivery or payment provided for under the agreement.
7. Under Rule D163, the Exchange is required to ensure that any net amount resulting from the application of rule D160 is included in establishing the net amount for certification by the Exchange under its default rules and the Companies Act 1989.

Calculation of Values and Account

8. The terms of the standard forms of lending agreement set out the procedures for valuing cash and securities and how the account is to be taken. The Exchange expects that member firms (and non-members) will have applied these procedures in making their net amount calculations.

Notification of net amount to the Exchange

9. Accordingly, member firms (and non-members) who have entered into on Exchange lending arrangements with Lehman should apply the provisions of rules D160 – 162 and should then provide the Exchange with the net amount so derived, using either of the spreadsheets below, as appropriate.

For member firms:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/counterparty/unsettled-lehm-loans-member-firms.xls>

For non member firms:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/non-members/unsettled-lehm-loans-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.

Net amount for certification

10. Following receipt of the net amounts, the Exchange will include such sum in a certificate to be provided by the Exchange and that amount may be proved as a debt by the defaulter or counterparty, as applicable.

Exchange Website

11. As noted above, the Exchange has established a dedicated webpage which will be used as an information point for firms involved in the Lehman default process: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/lehman-brothers-default.htm>

Further Updates

12. Member firms and non-members should keep themselves informed as to developments by registering to receive Stock Exchange Notices via the Exchange website.
13. Any queries on this Notice should be addressed to Dagmar Banton , Trading Services, telephone +44 20 7797 1210 (STX 31210) email dbanton@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.