



London
Stock Exchange

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

N44/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – IN DEFAULT – DATA RECONCILIATION AND NET AMOUNT CERTIFICATION PROCESS

1. This Stock Exchange Notice provides details of the data reconciliation and net amount certification process that the Exchange proposes to apply in relation to the default by Lehman Brothers International (Europe) (“**LBIE**”).
2. LBIE and its counterparties should read this Notice and its attachment carefully, and make any submissions to the Exchange regarding the proposed process as soon as possible and, in any event, by 12:00 hours on Monday 19 January 2009.

Exchange default procedures

3. The Exchange's default procedures, which operate within the statutory framework of Part VII of the Companies Act 1989, are intended to determine the net amounts payable between LBIE and each of its counterparties in respect of unsettled non-central counterparty on Exchange trades at the time the default was declared. They apply equally to member and non-member counterparties in respect of such trades and can be found at the ‘D’ series of the Exchange Rules (see <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>)
4. As it has been confirmed to the Exchange that LBIE acted only in a principal capacity in relation to on Exchange business, there is no need to apply the default procedures for agency trades (at Rules D150 to D155) in the context of this default.

5. For principal trades, the Exchange will calculate the net amounts due by or owing to LBIE (under Rule D120) in pounds sterling (under Rule D144) based on the hammer price set for each security (under Rules D130 - 132).
6. It will then issue net amount certificates (under Rule D121) to LBIE (represented by the joint administrators at PricewaterhouseCoopers LLP) and its counterparties. The net amount certified by the Exchange as payable between LBIE and each counterparty may be proved as a debt.
7. The Exchange will ensure that (in accordance with Rule D163) any net sum calculated by LBIE and its counterparty as being payable in respect of any lending arrangements (in accordance with Rule D160) is included in establishing the net amount for certification.
8. However, the Exchange has not to date received any submissions from LBIE or its counterparties regarding on Exchange stock lending arrangements. If no such submissions are received by 12:00 hours on Monday 19 January 2009 the Exchange will conclude that there are no on Exchange lending arrangements, and therefore that there is no need to apply those parts of its default procedures relating to such arrangements (Rules D160 -163) in the context of this default.
9. The Exchange's default procedures – and its role in the LBIE default – will cease once it has certified the net amounts payable.

Key objectives of the default process

10. The key objectives of the Exchange's default process are as follows:
 - to determine which trades with LBIE were both on Exchange and unsettled at the time the default was declared;
 - to establish the net amounts due by or owed to LBIE in respect of such trades; and
 - to notify those net amounts to LBIE and its counterparties.
11. Obtaining the data necessary to achieve these objectives has been complex for a number of reasons. Specifically:
 - the Exchange has received incomplete and/or imperfect data from LBIE and its counterparties;
 - there is uncertainty on the part of some counterparties, and in some cases disagreement between and contradictory evidence from LBIE and its counterparties, about whether particular trades were conducted on Exchange; and

- the settlement data available to the Exchange from the various central security depositories is not wholly reliable as a result of, among other things, inputting errors by LBIE and its counterparties.
12. The Exchange has been working closely with LBIE (and others) to obtain all relevant data. This has been time-consuming and challenging, not least because of the unexpected nature of LBIE's administration and the complexity of its business operations and record keeping.
 13. The Exchange has also communicated extensively with all market participants in relation to the LBIE default, and maintains a dedicated page on its website containing relevant information <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/default-information/lehman-brothers/lehman-brothers-default.htm>

Default reconciliation and net amount certification

14. The Exchange is nearing the end of its data collection phase and intends to commence the process of reconciling the data in its possession early in 2009.
15. The attachment to this Notice describes the process the Exchange proposes to adopt to reconciling the data to determine which trades with LBIE were both on Exchange and unsettled at the time the default was declared. It also describes the Exchange's proposed process for establishing – and certifying – the net amounts due by or owed to LBIE.
16. LBIE and its counterparties should read this attachment carefully to ensure that they understand the proposed process.
17. Any submissions in respect of this process, including any additional information regarding relevant trades and/or lending arrangements, should be made to the Exchange as soon as possible and, in any event, by 12:00 hours on Monday 19 January 2009.
18. Submissions should be addressed to either:

John Newbury, Trading Services, telephone +44 (0)20 7797 1615 (STX 31615) or email: jnewbury@londonstockexchange.com; or

Rachael Hanley, Trading Services, telephone +44 (0)20 7797 3483 (STX 33483) or 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.