



**London**  
**STOCK EXCHANGE**

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16 September 2008

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

**N10/08**

## **STOCK EXCHANGE NOTICE**

### **LEHMAN BROTHERS INTERNATIONAL (EUROPE) – HAMMER PRICES AND REQUIREMENT TO CEASE SETTLEMENT**

1. Further to London Stock Exchange Notice N09/08, this Notice provides details of the hammer prices (as defined in the Rules of the London Stock Exchange) that have been fixed by the Exchange's default official and sets out the Exchange's requirement on member firms to cease settling any and all trades to which Lehman Brothers International (Europe) ("Lehman" or "the defaulter") was the counterparty and acted in a principal capacity.

#### **Hammer prices**

2. In accordance with paragraphs D130 to D133 of the Rules of the London Stock Exchange ("the rules"), the Exchange has been working on fixing hammer prices for the securities in which Lehman has unsettled on-Exchange trades that were not intermediated by LCH as central counterparty. A list of the hammer prices fixed so far is available on our website:  
<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/defaultinfo.htm>
3. Where hammer prices have not yet been fixed they will be added to the list as soon as reasonably practicable.
4. Member firms who believe they have unsettled on-Exchange transactions with Lehman are advised to familiarise themselves with the default rules D010 to D200. Member firms should note that hammer prices are not applicable for the valuation of lending arrangements. With respect to these, member firms should have regard to paragraphs D160 to D163 of the rules.

#### **Ceasing of settlement**

5. Euroclear UK and Ireland (CREST) has suspended settlement in all trades that were to be settled through its facilities. The Exchange has received enquiries

from member firms as to the default process for trades, including those conducted on the International Order Book (“IOB”) that are settled through DTCC and Euroclear Bank. The Exchange confirms that all trades, including those on the IOB, are subject to its default rules and procedures. The Exchange is aware that some IOB transactions are continuing to settle in DTCC and Euroclear Bank. For the avoidance of doubt, and in accordance with paragraph D140 of the rules, member firms should ensure that no further settlement of their on-Exchange transactions with Lehman takes place. This will ensure that the Exchange can deal with such trades under its default procedures.

### **Additional information**

6. The Exchange has also received enquiries as to member firms’ trading positions as a result of the application of the default process. Any unsettled on-Exchange market transactions subject to the default procedure will either be net cash settled between the defaulter and the counterparty (where the defaulter acted in a principal capacity) or will be settled as dealt with the defaulter’s client (where the defaulter acted in an agency capacity). Member firms receiving a cash settlement will receive either a net loss or profit on the trades as dealt, depending on the difference between the trade price and the hammer price. Member firms will also need to consider the actual price of the underlying security in managing their open positions.
7. The Exchange will shortly contact those member firms it believes have unsettled on-Exchange positions with Lehman to request information regarding those unsettled positions. These will be used in the reconciliation process that is now underway.
8. For the avoidance of doubt, the Exchange will not be applying paragraph D122 of the rules in this instance.
9. 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.
10. 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](mailto:jnewbury@londonstockexchange.com); or

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