



London
STOCK EXCHANGE

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15 September 2008

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

N09/08

STOCK EXCHANGE NOTICE

LEHMAN BROTHERS INTERNATIONAL (EUROPE) – APPLICATION OF DEFAULT RULES AND PROCEDURES

1. Further to London Stock Exchange Notice N08/08 issued today declaring Lehman Brothers International (Europe) (“Lehman” or “the defaulter”) to be a defaulter pursuant to and in accordance with paragraph D100 of the Rules of the London Stock Exchange (“the rules”), this Notice provides further details of the London Stock Exchange’s (“the Exchange”) default rules and procedures.

Default rules and procedures

2. As a Recognised Investment Exchange, the Exchange is required to have default rules in place to facilitate but not effect settlement of unsettled trades for on-Exchange market contracts. The default rules, incorporating rules D010 to D200 inclusive, are available on the website at <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>
3. Depending on whether the defaulter acted as a principal or agent, the rules provide a mechanism for providing a single net sum owed (principal transactions), or linking the two parties to an unsettled contract together (agency transactions), to facilitate settlement.
4. For any unsettled principal transactions the default official will fix the hammer price as defined in the rules and notify the defaulter and its counterparties of the hammer price in accordance with rule D130.
5. The Exchange will determine the number and types of unsettled trades the defaulter has as at the date it is declared in default by the Exchange. In general, to assist the Exchange in determining the numbers and types of unsettled trades a defaulter has the defaulter is required to provide the Exchange with the full details of all unsettled trades (as at the date of the

default) with the defaulter's settlement agent and any residual settlement.

Transactions covered by the Exchange's default rules

6. Only transactions effected on the Exchange ("Stock Exchange market contracts") will be subject to the default rules. Trades executed automatically on an Exchange order book are deemed to be Stock Exchange market contracts as described in rule 2000. Trades executed away from an Exchange order book are deemed to be Stock Exchange market contracts if there is a corresponding trade report to the Exchange as detailed in rule 3010.
7. It is important to note that where the defaulter's transaction was effected through a central counterparty these 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 procedures.

Other information

8. In addition to Exchange Notice N07/08 issued today, the Exchange can confirm that Lehmans have not effected any on-Exchange transactions today, including any transactions on the International Order Book.

Next steps

9. In accordance with the default rules and procedures, the Exchange has now commenced its default process and will, as soon as is reasonably practicable, contact relevant counterparties in accordance with rule D115 and the default rules in general.
10. The Exchange has appointed Nick Bayley as the default official together with John Newbury and Rachael Hanley as deputy default officials in accordance with rules D050 and D052 respectively.
- 11.. 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.