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27 February 2009

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

N12/09

STOCK EXCHANGE NOTICE

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

1. The Exchange issued Stock Exchange Notice N44/08 on 19 December 2008. That Notice and its attachment provided details of the data reconciliation and net amount certification process that the Exchange proposes to apply in relation to the default of Lehman Brothers International (Europe) ("LBIE") and allowed a period for comment by LBIE and its counterparties.

Confirmation of Process

2. The Exchange did not receive any substantive comments from LBIE or its counterparties on the proposed data reconciliation and net amount certification process. Therefore, subject to the notes below regarding outstanding dividend and corporate action claims, the Exchange confirms that it will now follow the process outlined in N44/08 and its attachment.

3. Further details of the process and an amended indicative timetable are set out in this Notice.

Outstanding Dividend and Corporate Action Claims

4. In accordance with the attachment to N44/08, the Exchange will include in its default procedures any unsettled claims that are automatically generated by the CSD (i.e. CREST claims) and that relate to on Exchange trades, irrespective of whether those trades are settled or unsettled.

5. However, there is no reliable central data source for other claims. The Exchange has therefore decided that it will not include in its default procedures any claims which are not automatically generated by the CSD. Rather, it will be for LBIE and/or its counterparties to provide details of any such claim(s) to the Exchange in response to their initial determinations (see below). If such details are provided, the Exchange will then consider whether to include the relevant claim(s) under its default procedures.

Consultation on Initial Determination

6. The Exchange will issue an initial determination to LBIE and each of its counterparties in the form of a spreadsheet. This spreadsheet will identify those trades the Exchange has initially determined as being on Exchange and unsettled at the time the LBIE default was declared, and which it therefore proposes to include in a net amount certificate ("NAC"). Some of these trades may not have been submitted by LBIE or its counterparties but trade reports and/or CSD records demonstrate the existence of an on Exchange, unsettled trade.

7. The initial determination will also separately identify any trades submitted by LBIE or its counterparties that have been determined by the Exchange not to be on Exchange and unsettled.

8. Each initial determination will include a draft net sum calculation representing the Exchange's provisional view of the position. This draft net sum calculation may be subject to change in light of any further evidence received.

9. It is anticipated that the Exchange will begin issuing initial determinations to LBIE and its counterparties, on a phased basis, in mid March 2009.

Assessment of Further Evidence, Confirmation of Net Amounts and Certification

10. LBIE and its counterparties will be asked to advise the Exchange within 3 weeks whether they agree or disagree with the initial determination. If LBIE and the relevant counterparty agree with the Exchange's initial determination, the Exchange will then proceed to issue NACs to them as soon as possible.

11. If LBIE and/or its counterparty do not agree with the Exchange's initial determination, they should provide further evidence in support of their position. The Exchange will assess this further evidence carefully and thereby reach a final determination on which trades should be included in the relevant NACs before they are issued.

Hammer prices

12. The Exchange has published hammer prices for those securities which it believes are covered by its default procedures. Where a market middle price was not available on the Exchange immediately before the declaration of default, the Exchange has obtained middle prices from the relevant home markets for those EU regulated market securities. Where a market middle price was not available from the relevant home market, the closing price on the trading day prior to the date of the declaration of default has been obtained from the home market instead.

13. Member firms should be aware that hammer prices have been published in the relevant local currencies. In preparing NACs, the Exchange will convert each amount due into sterling using the exchange rates published in Stock Exchange Notice N37/08 of 18 November 2008.

Indicative Timetable

14. The Exchange has reviewed the timetable outlined in the attachment to N44/08 and prepared an amended version. Indicative dates are now as follows:

- Complete data reconciliation process – early March 2009
- Commence issuing initial determinations – mid March 2009
- Commence issuing NACs – April 2009
- Completion of default procedures – June 2009

15. Any queries should be addressed to:

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Nick Bayley
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