London Stock Exchange

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05 March 2009

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

N13/09

STOCK EXCHANGE NOTICE

TEATHERS LIMITED (FORMERLY LANDSBANKI SECURITIES (UK) LIMITED) – IN DEFAULT – DATA RECONCILIATION AND NET AMOUNT CERTIFICATION PROCESS FOR RELEVANT PRINCIPAL CONTRACTS

Introduction

1. This Stock Exchange Notice and its attachment provide details of the data reconciliation and net amount certification process that the Exchange proposes to apply in relation to the default of Teathers Limited ("Teathers"). This default was declared at 17:00 hours on 25 November 2008 (see Stock Exchange Notice N38/08 issued on that date). For the avoidance of doubt, Teathers, which changed its name from Landsbanki Securities (UK) Limited on 7 October 2008, should not be confused with Straumur-Burdaras Investment Bank HF, which uses 'Teathers' as a trading name.

2. The process set out in this Notice and its attachment relates only to on Exchange non-central counterparty trades that were unsettled at the time the default was declared and to which Teathers is party as principal ("relevant principal contracts") including, for these purposes, those trades in which Teathers acted in a dual capacity (see paragraph 8 below).

3. On Exchange non-central counterparty trades that were unsettled at the time the default was declared and to which Teathers is party as agent ("relevant agency contracts") will be subject to the process set out in Stock Exchange Notice N46/08 issued on 23 December 2008.

4. Teathers and its counterparties should read carefully both this Notice and its attachment to ensure that they understand the proposed process for relevant principal contracts and have taken all appropriate action.

Exchange default procedures

5. 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 Teathers 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 are set out in the 'D' section of the Rules of the London Stock Exchange ("the Rules"). Please refer to: http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm

6. Teathers traded both as agent and principal. As set out above, and consistent with Rules D150-155, relevant agency contracts will be subject to the process set out in Stock Exchange Notice N46/08 issued on 23 December 2008. In accordance with this process, the Exchange has already put Teathers' agency clients in contact with the market counterparties to their trades by issuing Default Settlement Directions (also known as "read letters") requiring the trade to be settled as originally dealt.

7. In relation to relevant principal contracts, the Exchange will calculate the net amounts due from or owing to Teathers (under Rule D120 and Rules D141-144) based on the hammer price set for each security (under Rules D130-132). Any non-sterling net sums arising from unsettled trades will be converted into pounds sterling (under Rule D144).

8. Teathers acted in a dual capacity in relation to some trades, i.e. as both agent and principal. Specifically, Teathers' agency operation (member firm code 721 ("Teathers 721")) traded with Teathers' market-making operation (member firm code 777 ("Teathers 777")) when executing some of its agency business. Consequently, there are some on Exchange non-central counterparty trades that were unsettled at the time the default was declared in which a client traded with Teathers 721 (as agent) and Teathers 721 executed the trade with Teathers 777 (as principal) ("dual capacity trades"). The Exchange proposes to deal with dual capacity trades as relevant principal contracts (i.e. as though Teathers dealt as principal with its client). The relevant hammer price will therefore be applied to these trades and a net sum calculated (under Rules D141-144) in accordance with the process outlined in this Notice and its attachment.

9. With regard to any outstanding dividend and corporate action claims in relation to relevant principal contracts, the following should be noted:

- The Exchange proposes to include any unsettled claims relating to on Exchange trades, irrespective of whether those trades are settled or unsettled, which are automatically generated by the Central Securities Depository ("CSD") (i.e. claims generated by CREST).

- Unfortunately, there is no reliable central data source for any claims which are not automatically generated by the CSD. Teathers and/or its counterparties are therefore asked to provide details of any such claim(s) to the Exchange. If such details are provided, the Exchange will determine whether to include the relevant claim(s) in its default procedures. If no details are received, the Exchange proposes not to include in its default procedures any claims which are not automatically generated by the CSD.

10. The Exchange will then undertake a consultation on its <u>initial</u> determination of what must be included in the net amount calculation, as per Stage 3 in the attachment. Once the Exchange has reached a <u>final</u> determination as to what must be included, it will move to Stage 4 of its process and issue net amount certificates (under Rule D121) to Teathers (represented by the administrators at KPMG) and to counterparties. The net amount certified by the Exchange may be proved as a debt.

11. The operation of the Exchange's default procedures – and its role in the Teathers' default – will cease once it has certified the net amounts payable.

Data reconciliation and net amount certification

12. The Exchange is nearing the end of its data collection phase and intends to complete the process of reconciling the data in its possession during April 2009.

13. The attachment to this Notice describes in detail the process the Exchange proposes to adopt to reconciling the data to determine which trades with Teathers 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 from or owed to Teathers.

14. Teathers and its counterparties should read this attachment in full in order to ensure that they understand the proposed process.

15. Any comments on this Notice or its attachment, including any additional information regarding relevant principal contracts or claims, should be provided to the Exchange <u>as soon as possible and, in any event, by 1700 hours on Friday, 20 March 2009.</u>

16. Comments should be addressed to either:

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

Tim Rowe, Trading Services, telephone +44 (0)20 7797 3468 (STX 33468) or email: trowe@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.