

Lehman Brothers International (Europe) – In Administration

Joint Administrators' Proposals for Achieving the Purpose of
Administration

28 October 2008

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Section 1: Purpose of this document

Introduction

SA Pearson, DY Schwarzmann, MJA Jervis and I were appointed as Joint Administrators (the “Administrators” or the “Joint Administrators”) of Lehman Brothers International (Europe) (“the Company” or “LBIE”), by order of the UK High Court of Justice on 15 September 2008.

The purpose of the Administration is to realise the Company’s business and assets in a manner which will result in a more advantageous realisation than would be achieved on a winding up (a formal liquidation, as defined in the Insolvency Act 1986). The powers and duties of the Joint Administrators are set out in the Insolvency Act 1986, as amended by the 2002 Enterprise Act and the related rules. Each of the Joint Administrators of LBIE is a partner in the UK firm of PricewaterhouseCoopers LLP (“PwC”) and a licensed Insolvency Practitioner, regulated by the Institute of Chartered Accountants in England and Wales.

This document and its appendix are provided to you in accordance with paragraph 49, Schedule B1 of the Insolvency Act 1986. Within it we set out:

- the background to the Administration, including the events immediately leading up to the appointment of Administrators;
- an overview of the Company’s business and structure;
- the manner in which the Company’s affairs are being managed, including details of the steps taken to date and the Administrators’ proposed actions;
- the Administrators’ proposals, in accordance with the Insolvency Act;
- comments on the availability of financial information;
- statutory information regarding the Company; and

- information regarding the meeting of creditors and the creditors’ committee.

Creditors’ meeting

A creditors’ meeting will be held on 14 November 2008 at IndigO2, a meeting facility at The O2, Peninsular Square, London SE10 0DX, to consider the Administrators’ proposals and to decide whether a creditors’ committee should be formed.

It would be helpful if any creditor wishing to be considered for election to the creditors’ committee notifies us of their interest prior to the creditors’ meeting, wherever possible, in order that the voting process can be conducted more efficiently on the day.

Creditors will be bound by the Administrators’ proposals if such proposals are approved at the creditors’ meeting by the requisite majority. It is therefore important that you read this document carefully. A creditor is entitled to propose modifications to these proposals for the Administrators’ and creditors’ consideration.

Immediately following the creditors’ meeting, the Administrators will post onto the PwC web site any material information which is disclosed at the meeting and which is not at that time in the public domain.

Future reporting

At six monthly intervals, further reports will be provided to the creditors of LBIE, setting out the progress that has been made in these various matters, together with the Company’s receipts and payments for each six monthly period.

Signed:



Anthony Victor Lomas
Joint Administrator
Lehman Brothers International (Europe)

Section 2: The circumstances giving rise to the Administrators' appointment

Background information

Investment banking was at the core of the business of the global Lehman Brothers Group of companies (the "Lehman Group"). Until its recent collapse, the Lehman Group was one of the four biggest investment banks in the United States. It provided financial services to corporations, governments and municipalities, institutional clients and high net worth individuals. The business activities of the Lehman Group were organised in three segments, namely: capital markets, investment banking and investment management. Those segments included businesses in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity.

The Lehman Group's headquarters were in New York, with regional headquarters in London and Tokyo and many offices in North America, Europe, the Middle East, Latin America and the Asia-Pacific region.

The ultimate parent company of the Lehman Group is Lehman Brothers Holdings Inc. ("LBHI"), which is incorporated in the United States.

Events immediately preceding the Administrators' appointment

The Lehman Group operated in a market that depends heavily on investor and market confidence. In the period immediately prior to its insolvency, there was an escalating loss of confidence in the Lehman Group, as evidenced by a significant deterioration in LBHI's share price on the New York Stock Exchange of almost 80 per cent during the week from Friday 5 September 2008 to Friday 12 September 2008.

On Tuesday 9 September 2008, the share price fell 45 per cent following reports that negotiations with the Korean Development Bank, regarding a potential major investment in the Lehman Group, had been put on hold.

The following day, the Lehman Group announced a third quarter loss of US\$3.9 billion.

At the same time, the Lehman Group announced plans to sell a majority stake in its investment management business and to spin-off the majority of its commercial real estate assets into a new, separate public company. These measures failed to restore investor confidence and the share price fell a further 7 per cent on Wednesday 10 September 2008.

Following the close of business that day, Moody's Investors Service, one of the main credit rating agencies, announced that, in the absence of a purchaser for the Lehman Group or its business by Monday 15 September 2008, it intended to downgrade the Lehman Group's credit rating.

Various steps were taken in an attempt to resolve the Lehman Group's situation. We understand that weekend discussions were held in New York with potential investors and purchasers of the Lehman Group's business (or part thereof).

During the afternoon of 14 September 2008, we met with the directors of LBIE in order to consider what steps should be taken in the event that the New York discussions to save the group were to fail.

LBHI managed substantially all of the material cash resources of the Lehman Group centrally. A continuing failure of LBHI to settle obligations on behalf of LBIE at any point in time would result in the insolvency of LBIE, as it would be unable to meet its liabilities as they fell due. On 14 September 2008 the directors of LBIE sought assurances from LBHI that payments due to be made on 15 September 2008 on its behalf would in fact be made by LBHI. The directors also planned how to react in the event that these assurances could no longer be given by LBHI.

At approximately 12.30 am on 15 September 2008, LBIE was informed by LBHI that it would

no longer be in a position to make payments to or for LBIE and other Lehman companies and was preparing to file for Chapter 11 bankruptcy protection in the US.

Overnight, preparations were made by the directors, employees and advisers for a number of the Lehman Group companies in the UK to seek the protection of an administration order and directors of those companies, including LBIE, met and resolved to place those companies into Administration (collectively “the Lehman Administration Companies”).

At 7.56 a.m, on 15 September 2008 Administration orders were made in respect of each of the Lehman Administration Companies. Having been appointed as administrators, the Joint Administrators and their teams immediately assumed responsibility for LBIE’s affairs and began to pursue the purpose of the appointment.

Later on 15 September 2008, LBHI announced that it had filed for Chapter 11 bankruptcy protection in the US.

Objectives of the Administration

As it was not reasonably practicable to rescue LBIE as a going concern, the Administrators are pursuing the objective of achieving a better result for LBIE’s creditors as a whole than would be likely if LBIE were wound up (without first being in Administration).

The specific aims of the Administration are to:

- Realise all assets, including all cash and derivative positions on a managed basis;
- Mitigate as far as is possible and agree in principle the claims of all stakeholders and counterparties; and
- Manage client assets and client monies and return all trust assets to their rightful owners on a systematic basis.

Section 3: An overview of the Company's business and structure

Business Activities

LBIE was LBHI's main European broker-dealer. It provided investment banking services to clients (including corporate customers, institutions, governments, hedge funds and private clients) on a global basis.

LBIE was a global market maker in certain major equity and fixed income products. As part of its market-making activities it was a member of all principal securities and commodities exchanges across Europe and many others across the World.

LBIE had trading, research, structuring and distribution capabilities in equity and fixed income products and used a client-flow business model, which was based on the principal focus of facilitating client transactions in all major global capital markets products and services. LBIE generated client-flow revenues from a full range of clients by:

- advising on and structuring transactions specifically suited to meet client needs;
- serving as a market-maker and / or intermediary in the global marketplace, including having securities and other financial instrument products available to allow clients to adjust their portfolios and risks across different market cycles;
- originating loans for distribution to clients in the securitisation or principals market; and
- acting as an underwriter to clients.

LBIE maintained inventory positions of varying amounts across a broad range of financial instruments and took proprietary trading and principal investment positions.

LBIE's Capital Markets' division carried out primarily institutional client-flow activities, including secondary trading, financing, origination and securitisation, prime brokerage and research activities in fixed income and equity products. These products included a wide range of cash, derivative, secured financing and structured instruments and investments. LBIE was a leading global market-maker in numerous equity and fixed income products, European equities, government and agency securities, money market products, corporate high-grade, high-yield and emerging market securities, mortgage and asset-backed securities, preferred stock, municipal securities, commodities and energy products, bank loans, foreign exchange, financing and derivative products.

LBIE was one of the largest market participants in terms of pan-European listed equities trading volume and maintained a major presence in over-the-counter stocks, large capitalisation stocks, warrants, convertible debentures and preferred issues. The secured financing business managed equity and fixed income matched book activities, supplied secured financing to institutional clients and provided secured funding for their own book inventory of equity and fixed income products. The Company also served as an agent, market-maker and/or intermediary in the global marketplace, including making available securities and other financial instruments and products to clients to adjust their portfolios and risks across different market cycles, enabling clients to buy or sell large positions of securities through block trades and originating loans for distribution to clients through securitizations and/or syndications.

Corporate Functions

LBIE and all other companies in the Lehman Group were supported by a number of corporate support functions, including: Operations, Information Technology, Treasury, Finance, Risk, Compliance, Legal, Regulatory and Human Resources.

These were organised and managed on a global basis with regional or local management providing the appropriate local input. The main role of each function is outlined below.

The corporate functions provide support to LBIE's businesses through the processing of securities transactions arising from multiple business units across a multitude of systems, across multiple geographies. It also included receipt, identification and delivery of funds and securities, safeguarding of clients' securities, risk management, and compliance with regulatory and legal requirements.

Included in corporate functions are technology infrastructure and systems maintenance, information security, business continuity planning, treasury operations, financial reporting and business unit financial support, tax planning and compliance, internal audit, expense management, and other support functions. Records relating to the status of transactions (including unsettled, terminated and failed trades) and the physical location of assets by sub-custodian are managed, reconciled and reported by the corporate functions.

LBIE's businesses and operations rely on the secure processing, storage and transmission of confidential and other information. Substantial investment has historically been made in systems, processing capability and technology to manage and record execution and clearing and risk management. The businesses were (and continue to be) highly dependent on the ability to process, on a daily basis, a large number of often complex transactions across numerous and diverse markets in many currencies. Consequently, LBIE relies heavily on IT systems for financial, accounting, business and settlement systems as well as interfaces to third parties such as banks, custodians and settlement entities/clearing houses.

Extensive protective measures are required for LBIE's computer systems, internet sites, software and networks to protect against vulnerabilities to unauthorised access, computer viruses, denial of service attacks or other events that could have a security or business impact.

These systems and business infrastructure are inextricably linked to the same facilities utilised by other companies in the Lehman Group, and important geographic locations for the maintenance and support of these are both London and New York.

The Administrators only have control over the London facilities. Various other group companies, actively through their respective representatives, claim title to certain intellectual property rights in competition with LBIE, requiring the development of operating protocols and service agreements to govern the basis on which the infrastructure use will be shared going forward.

Section 4: The Administrators' actions to date

4.1 Overview

We set out here a high level summary of the Administrators' activities in the initial weeks.

Following a rapid assessment of the business and its operating structure the Administrators established a number of distinct workstreams – this enabled us to assert control over the Company's complex operations.

The Administrators' activities have been defined by activity area and by three phases. Given the differing nature of these workstreams the elements of each workstream are at different phases at the date of this document.

The three phases are:

Phase I: Control and assimilation

Gaining an understanding of the business and operations of LBIE (we had less than 24 hours access to information and people, before our appointment). Asserting control and formulating the optimal strategy for achieving the purpose of the Administration and creating a stable platform from which to operate.

The immediate challenge faced by the Administrators was gaining an understanding of the Company's business and asserting control over its operations. Having had few dealings with the Company the Administrators were, of course, unfamiliar with its structure, processes and people.

The Administrators immediately called upon the extensive Banking and Capital Markets ("B&CM") practice within PwC and mapped this specialist expertise with our insolvency expertise across the various functional activities of LBIE. This enabled the Administrators to ensure risk was managed and control asserted across the Company.

In the first two weeks of the Administration we:

- formed a large multidisciplinary team from within the PwC global network;
- handled extensive counterparty, employee and media inquiries;
- raised short term finance (\$100 million) to pay salaries and other essential costs;
- implemented retention arrangements for key employees;
- worked with the Bank of England, the FSA and other regulators on risk, compliance and market matters;
- established new processes for collating and managing stakeholder enquiries;
- explored the potential to sell LBIE's businesses and assets;
- completed the sale of the Equities business to Nomura; and
- effected a cost reduction exercise, including over 800 redundancies across LBIE's business areas.

Phase II: Systemisation

Determining how to systemise the processes, controls and disciplines required to enable the protection and orderly realisation of the assets, the agreement of claims against the estate and managing and eventually returning the assets of third parties.

Phase III: Run-off

This is the process of realising and running off the various books on a managed basis over the coming months and years and involves the Administrators' supervision of a run off team deploying many continuing LBIE employees.

Administrators' activities by Workstream

By reference to the phases of activity referred to above, the following sections of this document provide a summary description of the work being performed in each of the principal workstreams, primarily affecting the wind down of LBIE's former activities:

- Equities, fixed income and prime services
- Dealing with Trust Property (client monies and assets)
- Operations
- Inventory (physical stock management)
- Terminations of derivative transactions
- Failed trades
- Stock Borrows and Loans (repos and reverse repos)
- Treasury (cash management)
- Finance
- IT (systems resources)
- Human Resources
- Branches (LBIE's 12 overseas branches)
- Sale to Nomura
- Liaison with LBHI and its advisers

Other workstreams address the various support services and peripheral trading activities of LBIE and the statutory and regulatory compliance matters which the Administrators are required to deal with.

The activities of the Administrators in each of these areas is set out in the following pages.

4.2 Equities, Fixed Income and Prime Services

Background and workstream issues

Equities

Equities served the liquid, leveraged and futures markets. These included cash trading, flow derivatives in listed options markets and vanilla over-the-counter options and derivatives markets and programme trading. The Leveraged Businesses included structured derivatives and convertibles. The Equities Futures business executed and cleared equities and fixed income futures and option transactions largely for clients on an agency basis. The Clearing and Execution business provided these services to broker-dealers and other clients that did not have market-access themselves.

Fixed Income

Fixed Income activities included market making and participation in the new issue and secondary cash and derivative markets spanning Government and Agency Obligations, Corporate Debt Securities and Loans, High Yield Securities, Leveraged Bank Loans and Money Market Products.

Prime Services

Prime Services engaged in full operations, financing, clearing and processing services for its hedge fund and other clients. It offered a full suite of prime brokerage products and services, including margin financing and yield enhancement through synthetic and traditional products, global securities lending, full-service global execution platforms and research teams, customized risk management solutions, introduction of clients to suitable institutional investors, portfolio accounting and reporting solutions and personalised client service.

Over the counter (“OTC”) contracts

As at 10 October 2008 there were approximately 18,000 OTC equity derivative contracts between LBIE and its counterparties, which includes amounts with other Lehman entities (11,000 of which are live and 7,000 terminated). There are approximately 45,000 OTC fixed income contracts of which 32,000 are live and 13,000 terminated trades.

Contracts varied in complexity from relatively vanilla options to complex and bespoke exotic trades, structured to meet a particular client's needs. The risks arising from these positions were hedged by a combination of other OTC contracts, exchange traded instruments (futures and options) and physical securities. LBIE also resolved not to hedge certain positions and held proprietary positions.

LBIE was a significant participant in the exchange traded futures and options markets, holding significant house and client positions which were primarily cleared through LCH and Eurex but also in various markets around the World through a network of clearing brokers.

Soon after our appointment we retained independent advisers and brokers to assist in the close out and execution of market trades to ensure the market had little visibility into the strategies being pursued.

Terminated OTC trades

By 10 October 2008 approximately 20,000 OTC equity and fixed income trades had been terminated in accordance with the relevant ISDA or other agreements.

The valuation of each trade is being reviewed to obtain assurance that client valuations are compliant with the underlying agreements. These valuations range from the relatively straightforward to the highly complex and are dependant on structured mathematical models and market data.

As at 10 October 2008 there were approximately 43,000 live OTC fixed income and equity contracts and our focus has been on identifying opportunities to negotiate with counterparties to terminate or agree a settlement.

Listed derivatives, exchanges and clearing houses

LBIE had significant portfolios of listed derivatives open positions at global clearing houses and brokers, for example the initial and variation margin held at Eurex was in the order of \$1.1bn and at LCH.Clearnet was £1.4bn as at 10 October 2008. The scale of positions held with other clearing brokers ranged from several hundred thousand dollars up to levels in excess of \$65m.

Immediately after Administration on 15 September 2008 there was significant market turbulence. Steps were taken by the clearing houses and brokers to liquidate all positions. Given the scale and potential market impact of closing out positions held with these institutions we worked with the clearing houses to close out positions in as orderly a manner as possible.

As at 22 October 2008 \$1.3bn of collateral held by clearing houses and exchanges has been recovered. We estimate that a further \$1.5bn should be recoverable from clearing houses and brokers.

Securities exchanges and clearing houses

LBIE had significant transactions flowing through a large number of global securities exchanges, most of which have suspended and defaulted LBIE activities. To the extent that securities exchanges have applied their default rules, their application and resolution is taking considerable time to take effect.

Physical positions in shares and fixed income securities have been reconciled to their respective custodians or depositories and where they are proven to be unencumbered house positions (i.e. not client assets, see Prime Services below) these may be sold for the benefit of the unsecured creditors of LBIE.

Prime Services

LBIE operated approximately 700 relationships in the Prime Services business area. The Administrators' approach is to ensure the control, management and realisation of client "net debit" positions to:

- realise assets due to Prime Services as a consequence of client / counterparties having outstanding debit positions;

- liquidate "long" positions that are unencumbered for the benefit of LBIE's unsecured creditors and held at various counterparties / depositories;
- receive coupons and other entitlements arising from corporate actions relating to main ("own book" or "house") account positions and secure entitlements for underlying client positions; and
- confirm and reconcile assets held for safe keeping and return them to clients.

To date, activities in this area have been complicated by:

- certain positions being held in the US and Asia where access to the relevant data has not been forthcoming;
- the existence of thousands of notices of terminated transactions, arising from failed trades over the weekend of 12 September 2008; and
- the need to update books and records as at 15 September 2008.

The issues are further substantially complicated by the uncertainty as to the status of the accounts. In many cases Prime Services clients have lent securities as collateral against cash or securities loans, which may have then been:

- re-lent (re-hypothecated) to the market in accordance with the prime brokerage agreement;
- re-lent in accordance with the prime brokerage agreement but above a predetermined agreed limit attached to such lending; or
- not lent but mis-posted to the main account and / or posted directly to the main account when they should have been posted to the custody (safe keeping) account.

There are some 500 hedge fund relationships with over 1,300 funds. Prior to the Administration, the Prime Services team was responsible for communicating directly with these clients, via telephone and email on a daily basis. Following the Administration this correspondence was directed to the Administrators' personal mailboxes and voicemail. Managing the volume of direct calls and emails to this group has been a significant challenge initially overwhelming the telephone and e-mail systems.

It became immediately apparent that the various challenges and issues faced by the Prime Services clients were likely to result in extensive legal proceedings by clients to assert control and ownership of the assets in the management of LBIE. The Administrators have formed a Trust Property Team (further discussed below) to ensure that clients' issues are handled in a systematic, fair and equitable manner.

Objectives

The main objectives of the Equities, Fixed Income and Prime Services workstreams are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify and establish a suitable control framework to safeguard the assets. • Identify specific market positions. • Identify appropriate realisation strategies specific to each position to maximise return. • Identify and retain key staff to facilitate and support the realisations of book positions. • Close out risk positions and the subsequent realisation of over collateralisation on derivative exchanges and clearing houses. • Facilitate responses to queries raised by employees, counterparties and other stakeholders.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Develop and embed a formal trade approval process which can be applied to all trades prior to execution. • Value the outstanding positions to provide the Administrators with data to support execution decisions. • Effectively utilise the retained employees to support the Administrators in their objectives. • Respond to business activities queries raised by employees and external stakeholders. • Close non-client proprietary positions, once they have been confirmed (by Operations) as unencumbered, that are available for sale. • Coordinate the identification of open OTC contracts which have a positive mark-to-market to LBIE and implement mechanisms to realise value. • Coordinate the review and validation of valuations of OTC contracts under ISDA and other terminated agreements.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Design and implement a management information framework. Monitor the information on an ongoing basis. • Implement position / counterparty strategies to maximise return to the creditors. • Identify and validate counterparty claims. • Execute exit strategies.

4.3 Trust property

Background and workstream issues

LBIE held many classes of assets on behalf of its clients. It had provided significant financing to many clients, especially hedge funds and under the terms of these agreements LBIE had rights over certain assets. Additionally, under the terms of some custody arrangements, there was a right of set off where clients owed amounts to LBIE.

The identification of unencumbered client assets is therefore complex and considerable data is needed to establish an accurate position on a client by client basis. This is further complicated as LBIE's systems booked trades on a "contractual settlement" basis rather than an "actual settled" basis. As such, postings in the systems need to be reversed to reflect the position at 15 September 2008. The reconciliation steps that are required to be undertaken include, for example; amending the LBIE books and records for some 140,000 failed trades, pending transactions that have been contractually settled and corporate events that have not been recorded; adjusting LBIE's books and records to reflect market participant's actions post Administration and analysing the impact on the client assets if applicable; determining the location of the assets (custodian, counterparty, loaned, re-hypothecated) and obtaining statements, analysing assets from a legal perspective and determining final positions.

Additionally, it is essential that the physical inventory of securities is reconciled to the book inventory for both House and Client Assets.

LBIE's management estimate that LBIE had approximately 8,000 ISDA Master Agreements in place with counterparties under which OTC derivative transactions were effected, approximately 1,000 Global Master Repurchase Agreements ("GMRA") and approximately 600 Overseas Stock Loan Agreements ("OSLA") in place for repo transactions. In addition there were a substantial number of other "master" agreements for derivatives, repo and stock-lending transactions. There were approximately 67,000 open trades under the ISDA Master Agreements as at the date of Administration.

The Administrators have deployed a specialised forensic team that is operating across five key areas: client money, client assets, intercompany client money issues, IT development and litigation support. The team also support and enable the data capture and database development technology. In addition, we are deploying financial services specialists to support the identification and reconciliation of the client money and asset positions.

Court Application

In addition to addressing the issue of those Client Assets that in principle should be available to be returned to clients, the Administrators are aware of the issues faced by all of LBIE's unsecured creditors and the Administrators' responsibilities to them. We have sought to adopt a system for dealing with Client Asset claims in an orderly and efficient manner and one which, while recognising the importance of dealing with Client Asset claims, enables us to act with proper regard to the interests of all creditors.

The Administrators presented these procedures to the High Court on 7 October 2008, at which the FSA was also present, and have obtained an order approving these steps.

Prioritisation and Hardship Committee

In accordance with the Court order, the Administrators have set up a body ("The Prioritisation and Hardship Committee") to identify a set of principles that can be applied when considering the prioritisation of claims. This is in addition to The Trust Property Committee which has been established to oversee the operation and the overall management of the Trust Property Team.

The Prioritisation and Hardship Committee is periodically reviewing the principles of prioritisation to ensure that the overriding objective of treating all counterparties fairly is not prejudicial to the interests of a minority.

The Committee makes recommendations to the Administrators who then decide the terms on which resolutions will be reached with individual counterparties or classes of counterparties.

Direction from the Court

The Administrators may from time to time need to seek further directions from the High Court on particular issues arising with respect to Trust Property, for example, with regard to recovery of costs incurred in the process.

Workstream objectives

The main objectives of the Trust Property workstream, which is being led by our Forensic specialists, are:

Phase	Objectives
Phase I Control and assimilation :	<ul style="list-style-type: none">• Gain an understanding of the extent of client assets and monies.• Identify the entire population of counterparties that purport to have claims, rights or other interests in the Trust Property.• Identify a methodology for managing such assets.• Contact all parties identified as potentially having client assets in LBIE.• Design and build an IT system for managing the claims to client assets.• Liaise with the operations workstream on client money reconciliations.• Develop controls and interfaces with Operations, Finance and Business Activities for handling client assets.• Determine the most expedient method of communicating with counterparties.
Phase II Systemisation	<ul style="list-style-type: none">• Respond to queries raised by external stakeholders.• Embed procedures to reconcile all data and information to appropriate sources, to include terminations and other data impacting value.• Determine the various legal issues that impact upon the validity of the Trust claims.• Monitor the management and reconciliation of client assets (eg Corporate Actions).• Agree and implement a basis upon which the costs and expenses of dealing with all issues in relation to the Trust Property can be discharged.• Provide regular communication to clients explaining progress made in dealing with their assets.
Phase III Run off:	<ul style="list-style-type: none">• Agree and implement a procedure for making interim distributions of Trust Property to counterparties with valid Trust Claims.

4.4 Operations

Background and workstream issues

The Operations function within LBIE is responsible for the processing of transactions across multiple systems and across multiple geographies and to support business activities. This is the core function required to identify and value assets and liabilities associated with the trading operations of LBIE.

There were over 400 Operations employees within LBIE in London supporting and processing trading activity for LBIE and other LBHI subsidiaries, largely for operations within Europe.

The Administrators' team is supported by relevant specialists from within PwC whose specialist skills include settlements, exchanges, tax and insolvency.

This workstream has been designed to manage the following issues and challenges:

- Provide the supporting evidence relating to:
 - Decision making process concerning sale of House positions;
 - Assessment of the status of potential client assets and assets held in safe custody or co-mingled accounts;
 - Manage the resolution of over 140,000 failed trades. To resolve the accounting for these failed trades, by exchange, by counterparty and by jurisdiction;
 - Separate the LBIE vs. non LBIE activities.
- Manage inter-entity dependencies, including activities performed for LBIE by Lehman Brothers Inc., India (Powai) and other third party vendors.
- Coordinate intra-dependencies within LBIE e.g. ISDA/GMRA terminations.
- Manage over 500 reconciliation activities and resolve internal and external systems blockages currently preventing updating internal books and records and external reconciliation.

Workstream objectives

The main objectives of the Operations workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify the pre and post Administration Operations model. • Map the relationship between Operations Management and reporting to the Administrators' resource. • Understand processing flows across LBIE businesses. • Identify the population of failed and unsettled trades arising post administration. • Identify agency activity and complex structures supported by LBIE.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Design and develop settlement and custody processes to ensure stock and cash, realised from settlement activity resides in secure post Administration accounts. • Provide support to the Trust Property team to ensure client money is accurately reconciled. • Ensure all trades entered into (LBIE obligation) are included in the corporate functions repository and that they reflect correct "failed" trade status so that the reconciliations to cash and depot accounts are accurate. • Provide support to the Terminations workstream to ensure all terminations are valued and support the statement of affairs for creditors claims. • Reconcile collateral status for OTC derivatives. • Facilitate the processing of operational taxes (e.g. withholding tax) and liaise with tax authorities. • Determine whether Agency services provided by LBIE (e.g. loan, calculation, facility, disposal agent roles) to other parties should be continued. • Respond to operational queries raised by employees and external stakeholders. • Establish roles and responsibilities of the work stream to fully utilise the retained employees in supporting the Administrators in their objectives.
<p>Phase III</p> <p>Run off</p>	<ul style="list-style-type: none"> • Process trades which had failed or were unsettled following appropriate approval, paying attention to the net settlement process. • Settlement of House position sales. • Process mandatory and voluntary Corporate Action activities. • Provide evidence to support the Trust Property Team and Treasury to ensure appropriate identification of client assets and monies. • Provide Management Information to monitor the status of trading inventory, agency activity, pre-advised and actual cash realisations.

4.5 Inventory

Background and workstream issues

The Inventory workstream within the Operations function relates to the physical management of house and client securities. LBIE used custodians, sub-custodians, in-house and external vaults to hold and manage positions.

According to the records provided by the above, it is estimated that total securities under LBIE's control had a book value of some \$40bn at 15 September 2008.

Extensive resources have been committed by the Administrators to this critical area, to ensure optimal control and management.

This workstream has been designed to manage the following issues and challenges:

- It is estimated that over 11,000 securities were held at 97 depots, as at 15 September 2008, for House and Client assets. In addition, there are a number of other exchange, central counterparty and settlement agent relationships which have to be managed before finalising the house and client positions.
- The records of LBIE were not maintained in a fashion which facilitates immediate reconciliation with depots.
- There are over 3,555 reconciliation breaks with an aggregate value of \$2.1bn (i.e. differences between LBIE systems and depot records).
- The depot records for House and Client assets report positions which differ from the Company's systems.

All depots have been contacted and details of all assets requested.

A process has commenced to reconcile all depot positions to LBIE records. The Inventory workstream has:

- addressed internal and external systems issues to allow updating of the LBIE books and records; and
- requested details from all counterparties to commence external reconciliations.

The team is collating and providing evidence relating to depots, pendings and financing

arrangements to the decision making process concerning the sale of house positions and the assessment of client assets held in safe custody or co-mingled accounts.

Workstream objectives

The main objectives of the Inventory workstream are:

Phase	Objectives
Phase I Control and assimilation:	<ul style="list-style-type: none"> Identify the population of depots, relationships with custodians, sub custodians, settlement agents, central counterparties and exchanges for on and off exchange cash trading activity. Initiate dialogue with agent banks and custodians to discuss security/collateral arrangements under liquidation. Request confirmation of stock by location from custodians. Ensure physical securities are held in a safe environment.
Phase II Systemisation:	<ul style="list-style-type: none"> Monitor the status of LBIE's account at agent banks and custodians. Communicate with depositories to unfreeze depot accounts. Reconcile stock positions at depots and the positions that are being disposed of, in order to maximise cash realised. Develop settlement processes to ensure settlement activity results in stock and cash transferring to secure accounts. Ensure all trades entered into were included in the sub ledger and that the sub-ledger also reflects correct "failed" status so that reconciliation to cash and depot accounts are accurate. Establish roles and responsibilities of the workstream to fully utilise the retained employees in supporting the Administrators in their objectives. Respond to queries raised by employees and external stakeholders.
Phase III Run off:	<ul style="list-style-type: none"> Implement settlement process on the sale of house positions. Support the Trust Property team and Treasury team to ensure appropriate identification of client assets and monies. Design and implement a management information framework. Monitor the information on an ongoing basis. Implementation of position/counterparty specific strategies to maximise return to the creditors. Identify and validate counterparty claims. Execute the exit strategies developed by the business activities workstreams.

4.6 Terminations

Background and workstream issues

Many of the trades that LBIE entered into with counterparties were covered by Master Agreements. The majority of these Master Agreements covered OTC Derivatives, Stock Loan and Re-hypothecation (GMSLA); ISDA, OSLA and GMRA respectively.

On a default event (such as LBIE being placed in an Administration process), the Master Agreements stipulate the method and timing of early termination. The key events of a termination involve a termination notice (which establishes the date that the agreement is terminated) and a valuation statement which shows the settlement amount for all the trades under that agreement. These documents are sent by the non-defaulting counterparty to LBIE.

To deal effectively with these terminations, they must be logged and validated and any outstanding cash amounts owed to LBIE must be pursued.

The challenges are primarily of scale and complexity in terms of trade volumes and agreeing close-out valuations.

Volume of terminated contracts:

As at 10 October 2008, there were approximately 10,500 agreements comprising 8,000 ISDAs, 1,000 GMRA's, 600 OSLAs and various other forms of agreement. There are tens of thousands of trades within the Fixed Income and Equities businesses including transactions with other Lehman entities which need to be validated. At 27 October the position regarding terminations was as follows:

	Equity	Prime	FID	Other	Total
Live trades	10,704	1,905	32,351	169	45,129
Trades under a terminated agreement.	7,225	2,184	12,524	52	21,985
Total	17,929	4,089	44,875	221	67,114

Creating a robust, scalable, controllable process across Business Activities, Operations, Legal, Treasury and Finance to validate these agreements represents a significant challenge.

Validating the close-out amount calculated by counterparties:

- Establishing the LBIE view of the counterparty positions to reconcile against the close-out valuations relies on LBIE infrastructure, which has been partially unavailable / not maintained / owned by LBIE. We have had to create a manual process as a workaround.
- The valuation process requires retrospective market data which is currently unavailable in some cases.
- It has been a challenge to reconcile LBIE's information to counterparty correspondence (close-outs) as the information provided by the counter-party has varied greatly in detail and quality.

Gaining a comprehensive understanding the client's overall position with the Lehman Group is difficult as full consideration needs to be given to failed trades, collateral, trades booked by non-LBIE entities, and counterparties with multiple agreements. These issues must all be addressed to fully reconcile an individual counterparty claim and effect recovery.

Workstream objectives

The main objectives of the Terminations workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Design and develop a process to capture all terminations (including counterparty valuations). • Develop a regular line of communication between the Business Activities, Operations and Finance. • Establish a process to log and track incoming termination notices. • Develop a process to capture base data (trades, counterparties, collateral etc). • Run a pilot to test individual components of the process.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Complete a pilot test on a subset of the total terminations. • Ensure close-out notices are valued to enable: <ul style="list-style-type: none"> – allow the process to be controlled; – provide insight into possible issues with the total population of trades and ISDA's, that in turn will allow the approach to be adapted; and – to make best use of specialised resource that can value and validate close-out statement amounts. • Prioritise terminations to be valued. • Process exceptions (e.g. hard to reconcile / illiquid portfolios). • Effectively utilise the collateral management group (in Operations) which managed counterparty disputes pre-Administration. • Ensure all trades for selected agreements are valued and validated. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Negotiate unresolved discrepancies and resolve with counterparties. • Negotiate cash amounts to be collected. • Ensure all process exceptions are addressed and resolved. • Provide support to litigation where required.

4.7 Failed trades

Background and workstream issues

As a consequence of the Administration, many trades in the process of settlement were not concluded. There are approximately 140,000 unsettled cash trades reported, of which approximately 82,500 are in Europe, 45,000 in Asia and 12,500 in US. In addition, there are extensive derivatives failed trades. This issue has been of major concern to clients, market intermediaries and regulators.

The issues to be addressed have never been tackled before on this scale. This has resulted in numerous market participants taking opposing positions to LBIE, particularly in relation to OTC trades.

We continue to work with regulators and settlement systems and clearing houses/central counterparties to agree a basis on which unsettled trades can be addressed.

We have also begun interaction with former Lehman Group affiliates as 45,000 unsettled trades can only be resolved with the cooperation of LBJ (Japan) (now under the control of Nomura) and 12,500 with the support of LBI (US) (certain assets acquired by Barclays).

Reconciling data held in-house with that held by third parties, especially Exchanges, central counterparties and settlement agent banks who have applied their default rules to close out the positions, is a time consuming exercise, requiring a review and reversal of affected trades. In addition, determining the final net settlement position will take some time – (for example, in the UK the London Stock Exchange default process will take 6 to 8 weeks from the date of Administration (being 15 September 2008) to be completed (this affects approximately 5,000 trades).

Across Europe implementation of the Settlement Finality Directive (SFD) has not been consistently applied. As a result, LBIE cannot universally apply the process agreed with the FSA regarding OTC cash transactions in the UK, across other European Markets. Settlement processes outside of Europe have also yet to be resolved.

Further legal analysis will be undertaken with respect to assessing the actions taken by Exchanges and Settlement Systems and the extent to which default rules of one part of the trade settlement chain override the default rules of other parts of the settlement chain.

Beyond the issue of resolving unsettled transactions, there is the follow on issue of effecting the cancellation of underlying trades. A substantial amount of time has been and will be spent engaging and negotiating with counterparties over bilateral cancellation of OTC transactions not subject to exchange or other cancellation rules. The team will continue to work alongside the Stock Loan and Borrows team to resolve stock loan and repo fails.

Workstream objectives

The main objectives of the Failed Trades workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Gain an understanding of the volume and nature of failed trades (Exchanges, Central Counterparties, Settlement Systems, Clearing Houses and Settlement Agent banks and LBIE counterparties). • Work with regulators, clearing houses and other entities to explore and resolve issues. • Communicate to the market as our approach evolves to minimise the degree of market uncertainty caused as a result of failed/unsettled trades. • Ensure failed trades are accounted for in client and house position reconciliations. • Identify how to preserve LBIE’s position on failed trades.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Define detailed approach for handling specific categories of failed trades. • Implement options for addressing failed trades. • Monitor status of failed trades from initial identification to resolution. • Implement bilateral and exchange based resolutions. • Reflect transactions into books of account, as appropriate. • Provide support to the Operations team during the realisation of and unwinding of the failed trades. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Same as phase II.

4.8 Stock Loans and Borrows

Background and workstream issues

LBIE funded assets based on their liquidity characteristics, and used the securities lending markets extensively to manage liquidity. This was pooled with the liquidity position of LBIE's ultimate parent, LBHI.

In common with other market participants, LBIE financed assets under market standard terms whereby house and hypothecated client assets were lent to and borrowed from other market participants under either repo / stock lends or reverse repo / stock borrow arrangements. Typically these transactions were governed by GMSLA, OSLA, GMRA or other market standard arrangements.

LBIE estimates that, at 15 September 2008, market financing of approximately \$104bn of borrowing and \$109bn of lending had been entered into. In addition, a further \$114bn had been lent to other group companies and \$92bn borrowed. Market practice is to over-collateralise borrowings (typically 105%) and to take excess collateral on lending (known as a "haircut").

The terms of these financing arrangements provide that LBIE has triggered an event of default by virtue of its Administration and market counterparties have largely exercised their rights to close out collateral and buy-in short positions.

Given the value of these positions and the number of individual trades it is necessary to establish the value for which posted collateral was realised and we have contacted all market counterparties to establish their close-out estimates. These will be reviewed to ensure they accord with market values at the time of close out.

Some 13,000 stock loans failed as a result of Administration.

There exist multiple counterparties, depositories and compensating positions whose entitlements as at 15 September 2008 are further complicated by:

- certain positions being held in the USA where access to the relevant data is not yet forthcoming from LBHI;
- approximately 2,000 break notices of terminations in transactions arising from failed trades over the weekend of 12 September 2008;
- the unreliability of the books and records as at 15 September 2008, given the level of fails; and
- the volatility in the market immediately following LBIE's insolvency.

Workstream objectives

The main objectives of the Stock Loans and Borrows workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Gain an understanding of the scale and nature of the stock lending operations. • Ensure all market counterparties account for their actions under the borrowing / lending arrangements. • Define a methodology for reviewing submissions from market counterparties. • Contact all market counterparties and obtain details of their actions. • Develop Management Information for monitoring position by stock line.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement review methodology, including the role of LBIE Internal Audit. • Recover all excess collateral. • Ensure client valuations reflect buy-ins. • Develop a framework for reviewing counterparty calculations for buy-ins. • Pursue LBIE receivables. • Monitor receipts into LBIE via Management Information (“MI”). • Provide support to the Operations team during the process of validating SLB positions. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • As phase II.

4.9 Treasury

Background and workstream issues

The treasury function manages the liquid resources within LBIE. There were over 1,500 accounts with more than 60 agents in over 60 countries. Cash sums were held in many countries as collateral and exchange deposits. According to the balance sheet at 31 August 2008 some \$2.8bn is held in these accounts and some \$1.9bn in separate accounts reported as relating to client monies.

The treasury team was historically organised on a global functional basis. It therefore included activities specifically related to LBIE. A separate team has been established.

Following our appointment as Administrators it was necessary to reorganise the Treasury functions to ensure it was able to pursue the objective of realising cash balances.

All existing banking facilities of LBIE became inoperative and it was necessary to establish facilities with the Bank of England. This was done in the first week and enabled cash realisations to be handled and payments to be made.

LBIE was part of the LBHI liquidity management process, and as a consequence LBIE had no immediate liquidity at the date of Administration. As reported earlier, the Administrators negotiated a loan facility to enable the immediate expenses of the administration to be discharged.

Payments due to LBIE that were in the course of being made at the date of Administration were, in part, received by LBHI. Steps are being taken to recover these monies, which include both House and Client amounts.

The Treasury function within LBIE will, in due course, manage and administer all liquid assets and securities, requiring ongoing investment in systems and processes.

Workstream objectives

The main objectives of the Treasury workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Gain an understanding of the scale and nature of the operations of the LBIE Treasury function. • Identify and retain key staff. • Ensure all banks / paying agents are notified of the insolvency and provided with revised instructions. • Raise USD \$100 million to fund immediate expenses of the Administration (primarily payroll). • Establish operating banking arrangements for the Administration. • Establish new client accounts with the Bank of England and agree FSA waivers as necessary. • Establish new securities accounts with a third party provider. • Design a revised treasury management structure. • Develop an investment strategy so that excess funds can be invested. • Support the identification, negotiation and recovery of all cash balances, both house and client.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement investment management strategy, developed in phase 1. • Manage the numerous currencies, client monies accounts and house accounts in accordance with defined criteria. • Oversee management of cash and transactions. • Reconcile and manage house and client balances, this will include investment of funds in line with normal administration investment practices. • Effect regular account reconciliations. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Manage distributions to creditors and clients from realised funds. • Actively manage investment risk.

4.10 Finance

Background and workstream issues

The accounting systems of LBIE processed many thousands of transactions a day and were reconciled periodically on a global basis with other Lehman group companies.

The Administrators have deployed specialist PwC resource with expertise in systems design and control, product accounting, and control organisation, financial reporting and control processes.

We have been working to gain an understanding of the financial position at the date of Administration. This process has been dependent upon the support of overseas Lehman staff not employed by LBIE or any other Lehman entity which is under our control. LBHI group intercompany balances are currently unreconciled and many transactions remain unposted.

It has been necessary to develop MI, including the reporting of asset realisations, which requires redesign of the manner in which information is collated and reported within LBIE. MI requirements of each trading operation continues to need support and certain additional MI is required by the Administrators in order that they can control the affairs of the Company in the insolvency process. This is an ongoing exercise.

Stakeholder identification has been challenging, particularly establishing initial creditor positions, given the unavailability of certain standing data and a number of reference data sources. Creditors' positions at the date of Administration are impacted by derivative terminations, collateral sales, netting and offset by exchanges and counterparties. In addition, re-hypothecation and borrow/loan/repo positions add further complexity.

Following the Administration LBIE has received many thousands of termination notices. The finance function is supporting the valuation of these terminations, which includes the complete range of traded products.

Workstream objectives

The main objectives of the Finance workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify and retain key finance staff. • Identify key finance systems and communicate to the IT workstream to ensure system maintenance. • Provide ongoing support to the business activities. • Obtain, understand and analyse the balance sheet by financial instrument and counterparty. • Identify creditors for each entities' Statement of Affairs incorporating trading and non-trading balances. • Define and run the process in association with Operations, Legal, Business Activities and Risk to establish the position re master agreement terminations to ensure completeness, accuracy and validation of both debtor and creditor positions. • Develop Management Information around both asset realisation and creditors to allow the Administrators to establish current and future positions. • Design the operating model for the Finance function to support the wind down in phases II and III. • Establish net debtor/creditor position in regard to intercompany dealings. • Support the compilation of data for the Statement of Affairs. • Identify cost savings to adapt the cost base to the medium term needs of the Administrators.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Further develop the Management Information reporting process established in phase 1 to ensure all data is captured for run off. • Implement management framework for run off. • Ensure the needs of Business Activities, Operations and Finance are addressed. • Produce tax and other compliance filings where necessary, to support the Administration. • Respond to queries raised by external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Ensure the ongoing provision of financial information for management of the administration. • Manage cross workstream dependencies. • Support the process to agree the shape of the retained organisation (people and systems).

4.11 IT

Background and workstream issues

LBIE's business was centred around heavily invested IT infrastructure, which it shared with other members of the LBHI group. This IT infrastructure supported all of the Company's activities. It was essential that this was preserved post administration to enable the Administrators to have the ability to manage and report data to meet their objectives.

Immediate control was asserted over all IT infrastructure (data, applications and the underlying networks and servers). Actions were aimed at ensuring IT and data was appropriately secured to protect confidentiality, integrity and availability of the legacy information including LBIE house and client asset data.

PwC financial services IT experts were deployed to take control of the IT environment. IT and physical security experts were also required to secure the systems and building at 25 Bank Street.

Similar to many large global financial services organisations, LBIE's legacy business was supported by a very complex IT infrastructure that was operated on a global basis. The UK businesses alone used over 2,000 applications which were hosted both in the US and UK. Of the total number of servers, 7,000 were physically located in the UK. There were over 700 LBIE IT employees on the payroll at 15 September 2008.

Computer systems were not aligned to geographic boundaries and therefore LBIE and other group companies whose business was based in London used systems hosted and run by New York that were supported by application development teams in India and Sweden.

Immediately post Administration, action was taken to isolate and protect data and intellectual property owned by LBIE. In many cases this was seriously complicated and occasionally prevented where systems were hosted and controlled in New York by LBHI.

After LBIE became insolvent, many of the main IT systems supporting trading and operations ceased to be used, such that the data required to keep these systems up to date was no longer entered (e.g. market data normally entered by traders). To facilitate wind down, these systems are being updated to allow positions to be traded out.

In addition, in terms of the premises at 25 Bank Street, the Administrators have taken over operational management and oversight for this 31 floor European headquarters building, which housed over 5,000 staff and for which the access management system was previously run and hosted in the US.

Workstream objectives

The main objectives of the IT workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Gain an understanding of key systems. • Protect the confidentiality and integrity of the IT systems and the data that they contain by limiting and controlling logical access. • Make arrangement for the continuation of support from third party vendors. • Identify key staff for retention. • Identify IT dependencies on third parties including Barcap and Nomura. • Negotiate transitional service agreements with other parties, including Nomura, Barcap and LBHI.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Ensure the needs of Business Activities, Operations and Finance in terms of IT systems to support the wind down processes are addressed. • Implement service level agreements and governance arrangements with third parties including: LBHI, Nomura, Barcap and the shared service centre in India. • On-going management of the legacy Lehman European buildings including the European Headquarters at Bank St in London. • Implement the transitional service arrangement with Nomura.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Ensure the ongoing provision and stability of IT and infrastructure.

4.12 HR

Background and workstream issues

At the date of Administration there were approximately 5,000 people employed across 12 different legal jurisdictions. The business of LBHI was organised in functional and market areas, rather than by legal entity.

The majority of these people were on long term secondment from Lehman Brothers Limited (“LBL”) to LBIE. A large number of these also supported the trading operations of Lehman businesses elsewhere in Europe and the US. An immediate challenge was to identify those deployed on LBIE activities and those supporting non-LBIE entities.

It was immediately recognised that the need to provide certainty to key employees and determine a retention programme for the functional areas of the business was of paramount importance.

As LBIE reimburses LBL for all employees it was necessary to review staffing levels and over 800 redundancies have been made to date. This has required significant specialist resource to handle the volume and complexity of redundancies.

With over 400 employees in LBIE branches it was also necessary to deploy senior specialist resources into all territories to liaise with local staff.

Following the transfer of 2,400 people to Nomura, the HR aspects of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (“TUPE”) was addressed from LBIE’s perspective.

An ongoing communication strategy has been formulated to keep remaining employees advised of the restructuring of LBIE and the effect it has on their roles and responsibility. A further restructuring is planned in which new reporting lines and objectives will be identified, agreed and implemented.

Workstream objectives

The main objectives of the HR workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Identify key staff for retention. • Implement immediate cost savings through controlled redundancy programme. Manage employees sensitively. • Protect company assets. • Manage employees in all jurisdictions. • Manage the TUPE transfer of employees to Nomura. • Establish roles and responsibilities of the workstreams to fully utilise the retained employees in supporting the Administrators in their objectives.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement medium term retention package for employees required for run-off. Ensure robust performance related metrics are incorporated for retained staff. • Ensure employee remuneration is paid promptly. • Implement process for employee claims with the redundancy payments office. • Ensure ongoing communication with retained employees. • Manage employee queries and run "surgeries" for the redundant staff. • Respond to queries raised by employees and external stakeholders.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • HR insolvency specialist identified to head up the Lehman's HR function for the period of the wind down.

4.13 Overseas branches

Background and workstream issues

At the date of Administration, LBIE overseas branches had over 400 employees and operated in 12 countries in continental Europe, the Middle East and Asia. The branches (with the exception of Korea) acted as sales offices obtaining business on behalf of LBIE in the territories in which they were located. In Korea the branch operated autonomously and comprised sales and corporate functions.

The Administrators' immediate task was to gain an understanding of the situation by mobilising local PwC teams, managed and coordinated by a central UK team. The overseas teams were charged with identifying any assets held by the branches. Significant assets were held in Korea (c.\$400m), France (c.\$67m) and Switzerland (c.\$45m).

Korea

FSC of Korea (local regulators) issued an order of suspension of business and emergency measures ("FSC Order") upon LBIE Seoul Branch on 16 September 2008. The effect of this suspension was to prevent the Administrators from unwinding the trading positions and realising the value in Korea. The suspension will be in place until the earlier of 31 December 2008 or the FSC's voluntary lifting of it.

The Administrators are working to develop a plan to protect the net assets in such a way that will comply with local legislation and meet local creditors' issues.

France

There were \$67m of LBIE funds held by the Bank of France which could only be repatriated once the Administrators agreed to honour the severance packages of the LBIE staff being made redundant. The Administrators agreed to this, and an order was granted by the French Court which enabled the UK proceedings to be recognised in France. Consequently, the local proceedings were lifted leaving the Administrators in control and part of the funds have already been recovered.

Switzerland

There is \$45m in Switzerland which has been frozen by the local regulator. The funds can be realised once the regulator has clarity on the position in Switzerland with regard to the total liabilities of that branch and how they will be dealt with during the Administration.

Nomura Sale

There were over 100 employees initially selected for redundancy in the overseas branches. However, this process was delayed in certain jurisdictions due to local labour laws. For example, in Italy employees have a 75 day consultation process before they can be made redundant.

Over 300 employees have already transferred or will be transferring to Nomura.

There are a number of subsidiaries based in Europe which are owned by LBHI and are therefore outside the jurisdiction of the UK Administration.

Workstream Objectives

The main objectives of the Overseas Branches workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Formulate a plan for each branch, to identify how to best preserve value and minimise claims. • Identify and communicate with all branch staff, determining who works for LBIE and who works for other Group companies. • Identify those employees to transfer to Nomura, those to be retained for asset recovery activities and those to be made redundant. • Organise payroll in each jurisdiction.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Implement employee selection; facilitate Nomura transfers and local redundancies. • Process relevant payments and devise appropriate retention plans. • Develop local strategies for asset recoveries in Korea, France and Switzerland.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Manage remaining of local resource through to eventual full recovery of local assets.

4.14 Sale to Nomura

Background and workstream issues

The sale to Nomura, which is subject to confidentiality undertakings, was entered into by both LBIE and its sister company, Lehman Brothers Europe Limited (in administration) ("LBEL").

The business sale resulted in the transfer to Nomura of the following business activities:

LBIE

- **Equities** - comprising prime brokerage services, equity derivatives, research, execution services, cash/electronic trading, over-the-counter and off-the-floor proprietary trading operations and associated clearing and settlement operations based in London and in branches of LBIE in Zurich, Amsterdam, Stockholm, Dubai, Frankfurt, Madrid, Seoul, Milan and Qatar.

LBEL

- **Investment banking advisory** - comprising mergers and acquisitions, origination and advisory operations.
- **Global finance** - comprising equity capital markets, debt capital markets, leveraged finance, corporate derivatives and risk solutions operations.

The sale ensured that the operating platforms of LBIE were preserved and that the costs associated with maintaining such infrastructure were minimised, together with mitigating the potential claims of a large number of employees. The sale also simplifies the management of issues arising in the overseas branches and optimises scope for realising assets held by LBIE in those jurisdictions.

Under the terms of the sale, the jobs of some 2,400 staff were secured and transferred to Nomura. Many other employees and former employees who were not part of this transaction have since been offered employment with Nomura.

The terms of the sale also provided for the on-going provision of core services and capability back to the Administrators, to support the run-off and wind-down of LBIE's business activities.

The key objective following the sale relates to working with Nomura to ensure their support in certain functional areas of the business to enable the resolution and run-off of outstanding LBIE positions.

Workstream objectives

The main objectives of the Sale workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Establish a robust governance structure to control the separation planning activity across all key LBIE functions, including interaction with the Nomura separation planning team. • Facilitate and challenge the workstreams on their separation planning and execution. • Understand key dependencies of the retained business on Nomura. • Facilitate the definition of transitional services required from Nomura including appropriate service standards. • Develop charging mechanisms in relation to services provided by the retained LBIE business to Nomura.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Design and develop the necessary governance and control framework to monitor and manage services under the transitional services agreements. • Liaise with the other workstreams to ensure processes and services are in place to support the wind down of the business. • Manage the ongoing cost base.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Monitor the service provided by Nomura on an ongoing basis to ensure the service level agreements are maintained, to conclusion.

4.15 Liaison with LBHI and its advisers

Background and workstream issues

The ultimate parent company of LBIE, LBHI, filed for Chapter 11 protection on 15 September 2008. Its board has hired restructuring and legal advisers.

Working within the LBIE businesses in the UK are certain employees who had historically worked on the business of other LBHI subsidiaries, as well as employees of US entities who are working on LBIE business. All Lehman Group businesses were, and continue to be, dependent upon substantially the same IT platform. The IT platform is at least in part controlled by businesses and entities outside the direct control of LBIE and LBHI.

The complexity and integration of the Lehman Group is such that there are disputes, competing claims and conflicting priorities. It is apparent that without a degree of cooperation between the LBHI entities and their respective advisers, progress in the liquidation and unwinding of the various estates could potentially be slower and more costly than could be the case under a collaborative arrangement. Given our view that it is in the general best interests of the creditors and counterparties of many of the LBHI entities that there is cooperation between the estates, steps are underway to develop a working protocol.

As creditors will be aware, both LBIE's Equities business and the operating business (and certain assets) of LBI have been sold. These sales have enabled the purchasers to continue to use the IT platform and the vendors have made arrangements with the purchasers for the provision of ongoing support and assistance under Transitional Services Agreements ("TSA").

The main challenges have been:

- Defining the services required by LBIE;
- Establishing exactly what the requirements of Nomura are;
- Determining how to ensure services between LBHI entities can be preserved and costs shared;
- Dealing with competing claims on resource, and conflicting priorities.

Workstream objectives

The main objectives of the LBHI workstream are:

Phase	Objectives
<p>Phase I</p> <p>Control and assimilation:</p>	<ul style="list-style-type: none"> • Establish lines of communication at appropriate levels. • Defining the operational requirements of each party. • Identification areas of conflicting needs. • Agreeing the heads of an operating protocol. • Mitigating the need to revert to the US Bankruptcy Court.
<p>Phase II</p> <p>Systemisation:</p>	<ul style="list-style-type: none"> • Agree a formal communication framework with LBHI and its advisers. • Ensuring common issues are debated, monitored and addressed. • Ensuring operating resource is preserved and costs recovered from the appropriate party. • Other LBHI entities are identified, as required, to co-opt into any protocol. • Issues requiring the input of the US Bankruptcy Court are minimised.
<p>Phase III</p> <p>Run off:</p>	<ul style="list-style-type: none"> • Operations to continue in accordance with service level agreement.

Section 5: Proposals for achieving the purpose of the Administration

The Administrators make the following proposals for achieving the purpose of administration.

- i) The Administrators will continue to manage and finance LBIE's business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for LBIE's creditors as a whole than would be likely if LBIE had been immediately liquidated.
- ii) The Administrators will identify and return Trust Property in accordance with the Order of the High Court dated 7 October 2008. The Administrators will be looking to have the costs of dealing with Trust Property borne by such assets.
- iii) The Administrators may investigate and, if appropriate, pursue any claims that LBIE may have under the Companies Act 1985, the Companies Act 2006 or the Insolvency Act 1986 ("IA86") or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of LBIE or to maximise their realisations or for any other purpose incidental to these proposals.
- iv) The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and the costs of so doing shall be met as a cost of the Administration as part of the Administrators' remuneration.
- v) The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Sch.B1 IA86.
- vi) A creditors' committee will be established if sufficient creditors are willing to act on it. The Administrators propose to seek the election of a creditors' committee and to consult with

it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.

- vii) The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to the court or seek consent from the appropriate classes of creditors for an extension.
- viii) The Administrators may use any or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including: -
 - (a) The Administrators may formulate proposals for a scheme of arrangement under Section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors. If the scheme of arrangement is approved and sanctioned by the court, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
 - (b) The Administrators may place LBIE into creditors' voluntary liquidation. In these circumstances, it is proposed that Anthony Victor Lomas, Steven Anthony Pearson and Michael John Andrew Jervis be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Sch.B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators,

provided that the nomination is made after the receipt of these proposals and before they are approved, OR

- (c) The Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of LBIE's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later, OR
- (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Sch.B1 IA86, following registration of which LBIE will be dissolved three months later. If permission is not granted the Administrators will place LBIE into creditors' voluntary liquidation or otherwise act in accordance with any order of the court.
- ix) The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators at a time determined by the court.
- x) The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.
- xi) The primary currency for the Administration will be US Dollars and funds will be maintained in US Dollars, (except to the extent that monies are needed to meet Administration expenses payable in other currencies or monies are held in trust for the benefit of a third party). The Administrators will require creditors to submit their claims in US Dollars and dividends will be paid in US Dollars in the chosen exit route from the Administration.

Voting

Creditors will be asked to vote upon the following matters at the initial meeting of creditors: -

- The approval of the Administrators' proposals for achieving the purpose of administration (as modified, as applicable); and
- The formation of a creditors' committee.

Section 6: Financial Information

The Administrators have granted the Directors an extension of time in which to prepare a Statement of Affairs due to the complexity of the task.

The Administrators do not believe it is in the interests of creditors to provide an alternative financial analysis at this time, as such analysis is likely to be materially incomplete and, as a result potentially, materially misleading.

Neither are we or the Directors able to provide an accurate list of creditors of LBIE at this time as this could ultimately be materially impacted by the effect of the administration on creditors' claims. A list of known counterparties will be provided on the PwC website. It should be noted that those listed are not necessarily creditors of LBIE, indeed some of those listed will, in fact, be debtors to the Company.

When available, a copy of the Statement of Affairs will be lodged at Companies House and will be placed on the PwC website.

If available at the time, reference will be made to the Statement of Affairs at the forthcoming creditors' meeting. If not, the Administrators will present as up to date an explanation of the financial position as they are able to and will also make that available to creditors who do not attend, by way of the PwC website immediately following the meeting on 14 November 2008.

Section 7: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 7942 of 2008
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	25 Bank Street, London E14 5LE
Company directors:	Mr WT John, Mr PR Sherratt, Mr JM Isaacs, Mr R Magnoni, Mr IM Jameson, Mr AJ Rush, Mr JP Phizackerley, Mr A Wright, Mr D Gibb
Company secretary:	Ms M Smith
Shareholdings held by the directors and secretary:	None of the directors own shares in LBIE
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann & MJA Jervis, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
Proposed end of the Administration:	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.

Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LBIE's net property:	It is estimated that the value of the prescribed part will be £600,000. The estimated value of LBIE's net property is uncertain.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	It is too early to decide whether such an application might be necessary
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as it is an investment undertaking.

Appendix: Questions and answers regarding the initial meeting of creditors and the creditors' committee

(Reference to “Rules” are to the Insolvency Rules 1986)

Who will be at the meeting?

One or more of the Administrators will chair the meeting and answer creditors' questions (Rule 2.36). There is no obligation on the directors of LBIE to attend unless they are required to do so by the Administrators (Rule 2.34(2)).

What will happen at the meeting?

It will be assumed that creditors will already have received and read the Administrators' proposals. The meeting will give creditors an opportunity to put questions to the Administrators. The meeting will then consider and vote upon any modifications that individual creditors might put forward, following which a vote will be taken upon the whole proposals as modified.

Various other resolutions might be considered, in particular those dealing with the basis of the Administrators' remuneration and the appointment and composition of any creditors' committee.

Am I obliged to attend the creditors' meeting?

You are not obliged to attend the creditors' meeting. The law recognises that creditors are not always able to attend in person and allows you to ask a representative to attend as proxy and vote on your behalf. You will not prejudice your claim and entitlement to dividend if you do not attend or appoint a proxy.

How do I ensure that my vote counts at the meeting?

In order to vote, a creditor must have submitted written details of his claim and the chairman must have admitted that claim for voting purposes following the guidelines below. These details need to be submitted to the Administrators no later than 12.00 noon on the business day before the meeting (Rule 2.38(1)). You might also need to lodge a proxy.

The chairman can admit a claim for voting purposes even though it was submitted late if he is satisfied this was due to reasons beyond the creditor's control (Rule 2.38(2)).

Do I need to lodge a proxy form?

If you yourself are the creditor (and not a corporate body such as a limited company), you may vote by simply attending the meeting, provided you have lodged a claim as explained above.

If you do not want to attend the meeting, you may nominate someone else, or the chairman of the meeting, to vote for you. They can vote either on your instructions or at their discretion. Do, however, remember that the chairman will be one of the Administrators and you might wish to consider specifying clearly how he should vote.

You must do this by completing the enclosed proxy form or a substantially similar form. The form needs to be signed by the creditor or by someone authorised by him and the nature of the person's authority to sign should be stated (Rule 8.2). If a company is the creditor, a director should normally sign. The proxy form must then be submitted at or before the meeting.

Please remember that if the debt is owed to a limited company or other corporation and you wish to attend and vote at the meeting, you should complete and return the proxy form even if you are a director of LBIE. (Alternatively you can produce at the meeting a resolution of the directors authorising you to represent that company.) (Rule 8.7).

Who decides whether my claim ranks for voting purposes?

The chairman has the power to accept or reject the whole or any part of your claim (Rule 2.39(1)). If he is in doubt whether your claim should be admitted, he should mark it as objected to and allow you to vote. If however, the objection is sustained, then your vote will be declared invalid (Rule 2.39(3)). If your vote was critical to the outcome of the meeting, this could change the resolutions that were passed and/or result in a further meeting (Rule 2.39(4)).

What happens if I disagree with the chairman's decision?

You are entitled to appeal to the court for an order reversing the chairman's decision on your claim provided you do so within 14 days of the Administrator reporting the result of the meeting to the court, the Registrar of Companies and the creditors (Rule 2.39(5)). If the court does reverse the chairman's decision it can order that another meeting be held or make such other order as it thinks just (Rule 2.39(4)).

Creditors also have the right to appeal to the court if they believe that the administration unfairly harms their interests (Paragraph 74(1) Sch.B1 IA86).

We recommend that you seek legal advice about the merits of taking these steps in any particular circumstances.

How do I calculate my claim for voting purposes?

Votes are calculated according to the amount of a creditor's claim as at the date on which LBIE entered administration, less any payments that have been made to him after that date in respect of his claim and any adjustments by way of set-off in accordance with Rule 2.85 as if that Rule were applied on the date that the votes were counted (Rule 2.38(4)).

What majorities are needed to approve resolutions?

A resolution to approve the proposals or any modification to them is passed at the creditors' meeting if supported by a majority in excess of 50% in value of the creditors voting on the resolution (Rule 2.43(1)).

Any resolution is invalid if those voting against it include more than 50% in value of the creditors to whom notice of the meeting was sent and who are not, to the best of the chairman's / Administrator's belief, connected with LBIE (Rule 2.43(2)).

What happens if I cannot yet quantify my claim with certainty?

A creditor cannot vote in respect of a debt for an unliquidated amount or any debt whose value is not ascertained, unless the chairman / Administrator agrees to put on the debt an estimated minimum value for voting purposes (Rule 2.38(5)).

What happens if my debt is wholly or partly secured?

A secured creditor whose debt is wholly or partly secured is entitled to vote only in respect of the balance (if any) of his debt after deducting the value of his security as estimated by him (Rule 2.40(1)).

What happens if I hold a negotiable instrument?

A creditor shall not vote in respect of a debt on or secured by a current bill of exchange or promissory note unless he is willing: -

- (a) to treat the liability to him on the bill or note of every person who is liable on it antecedently to LBIE and against whom a bankruptcy order has not been made (or in the case of a company, which has not gone into liquidation) as security in his hands; and
- (b) to estimate the value of the security and, for the purpose of his entitlement to vote, to deduct it from his claim (Rule 2.41).

What happens if I am a creditor under a hire-purchase, conditional sale agreement or leasing agreement?

An owner of goods under a hire-purchase or chattel leasing agreement, or a seller of goods under a conditional sale agreement is entitled to vote in respect of the amount of the debt due and payable to him by LBIE on the date LBIE entered Administration. In calculating the amount of any debt for this purpose, no account shall be taken of any amount attributable to the exercise of any right under the relevant agreement, so far as the right has become exercisable solely by virtue of: -

- the making of an administration application
- a notice of intention to appoint an administrator or any matter arising as a consequence, or
- of LBIE entering administration (Rule 2.42).

Am I bound by the Administrators' proposals if they are approved at the meeting?

The Administrators' proposals, when approved by the creditors' meeting, will dictate how LBIE's affairs will be conducted in future and how creditors' claims will be addressed.

Once approved the proposals are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that creditors properly consider the proposals and decide whether and how they wish to vote.

What are the functions of the creditors' committee?

The creditors' committee shall assist the Administrator in discharging his functions, and act in relation to him in such manner as may be agreed from time to time (Rule 2.52(1)).

In particular, it has the duty to agree the basis of the Administrator's remuneration (Rule 2.106(3)).

How is the creditors' committee formed?

The creditors' committee is established at a creditors' meeting. It is not obligatory but the creditors decide whether they wish to have one (Paragraph 57(1) Sch.B1 IA86).

The committee must consist of at least three and not more than five creditors of LBIE elected at the meeting (Rule 2.50(1)).

Any creditor of LBIE is eligible to be a member of the committee, so long as his claim has not been rejected in whole for the purpose of his entitlement to vote (Rule 2.50(2)). A body corporate may be a member of the committee, but it can only act as such through a properly appointed representative (Rule 2.50(3)).

No person may act as a member of the committee unless and until he has agreed to do so (Rule 2.51(2)). Unless the relevant proxy or authorisation contains a statement to the contrary, such agreement may be given by the creditor's proxy-holder or representative under Section 375 of the Companies Act 1985 present at the meeting establishing the committee (Rule 2.51(2)).

A person acting as a committee member's representative must hold a letter of authority entitling him so to act (either generally or specially) and signed by or on behalf of the committee-member (Rule 2.55(2)).

No member may be represented by a body corporate, or by a person who is an undischarged bankrupt, a disqualified director or a person who is subject to a bankruptcy restrictions order, bankruptcy restrictions undertaking or interim bankruptcy restrictions order or is subject to a composition or arrangement with his creditors (Rule 2.55(4)).

No person shall on the same committee act at one and the same time as representative of more than one committee-member (Rule 2.55(5)).

The creditors' committee does not come into being, and accordingly cannot act, until the Administrator has issued a certificate of its due constitution (Rule 2.51(1)).

