

## Lehman Brothers International (Europe) (in administration) - joint administrators release progress report

### Summary

The joint administrators of Lehman Brothers International (Europe) (“LBIE”) have released a six month progress report for the period 15 September 2008 to 14 March 2009 dated 14 April 2009, pursuant to their statutory reporting duties (the “**Report**”). The Report has been mailed to all known creditors and counterparties of LBIE with open positions at 15 September 2008 and is available from PwC’s website ([http://www.pwc.co.uk/eng/issues/lehman\\_updates.html](http://www.pwc.co.uk/eng/issues/lehman_updates.html)). The Report provides details of the progress made by the joint administrators during the first six months of LBIE’s administration.

A full copy of the report is attached, with highlights summarised below.

### Progress to Date

The report provides additional background on the structure and insolvency of LBIE and summarises the objectives, progress to date, issues and challenges of each workstream team established by PwC to deal with different aspects of the LBIE business.

As at 14 March 2009, the joint administrators report having recovered cash and bonds totalling \$8.7bn (comprising \$5.7bn in ‘house positions’ (securities and open derivatives) and \$3bn in ‘potential client positions’). Net cash balances at 14 March 2009 totalled \$7.4bn.

With respect to ‘Trust Property’, the Report clarifies that a formal process to return assets to clients has been implemented. This has involved the deployment of a team comprising more than 100 individuals. There has been an initial prioritisation of over 100 ‘hardship cases’ and ‘Trust Property’ asset returns to date total \$12.2bn.

## Financial Position of LBIE and return to creditors

After taking into account counterparty and cross product netting and discounting 'Trust Property', the Administrators calculate that LBIE had a resulting net equity position at 15 September 2008 of \$16.9bn. However, this 'net equity' cushion at 15 September 2008 of \$16.9bn represents just 1.3% of the gross book value of market positions as at that date.

The Report suggests that a number of events could result in LBIE suffering material losses (for example, significant movements in global securities and derivatives markets since 15 September 2008, unilateral termination of positions by market counterparties leaving LBIE unhedged in various products and markets, an inability of LBIE to terminate certain of its open market positions and 'close-out' for value, and an inability to hedge residual market exposures) and despite the preliminary existence of the \$16.9bn cushion, the joint administrators of LBIE report that there is a high probability that there is likely to be a shortfall to unsecured creditors.

The joint administrators of LBIE are not at present in a position to provide any dividend estimate to creditors or to give any illustration of timing. This is due to "limited visibility" on the value of claims against the estate of LBIE and the value of recoverable assets.

The Report explains that the LBIE Creditors' Committee has so far approved remuneration in excess of £77m, comprising 234,578 hours of work. We expect that figure to continue to grow, having regard to the work still to be done.

## The Scheme of Arrangement

On 16 March 2009, the High Court ordered that the joint administrators of LBIE be at liberty to propose a scheme of arrangement between LBIE and its creditors in relation to 'Trust Property'.

The Report makes clear that the practical viability and application of a scheme of arrangement is still under assessment with LBIE's Creditors' Committee and various working groups. However, it is also suggested that the joint administrators hope to hold the initial scheme of arrangement creditors' meetings by the end of September 2009. If this timescale is met, the joint administrators are proposing to set a bar date for claims during 2009, so that asset distributions can commence in 2010.

Any proposed scheme of arrangement will need to put to all affected creditors and will need to be approved by 75% in value and more than 50% by number of each class of voting creditors.

## Future strategy

The Report suggests that over the coming months, the joint administrators of LBIE intend to establish a comprehensive framework for the processing of creditor claims, including the examination of “alternative mechanisms for distributing realisations to unsecured creditors”. However, this is coupled with the warning that “it is likely to be some time before a dividend is paid to unsecured creditors”.

The joint administrators are due to issue their next report in six months’ time. We will continue to monitor the progress and provide an update in due course.

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