
From: Mahon, John: Markets (LDN)
Sent: Wednesday, September 17, 2008 4:50 PM
To: Keegan, Mike : Barclays Capital; Ricci, Rich: Barclays Capital; King, Stephen: Markets (NYK); Cox, Archie: Barclays Capital (NYK)
Cc: Malloy, Marty: CFG Mgmt (NYK)
Subject: Potential problem

Clearly the balance sheet we saw was one that was netted down.

LBI has borrowed and lend stock and securities that were not on the balance sheet we saw on Monday night. This may have been pb business.

The assets we saw, and said we were going to buy, may have been lent out and liabilities we saw would have been covered by borrowing those securities.

Couple of problems

1. They may have lent some of our desired securities to another, now defaulted entity, LBIE - this means we cant get them back - we don't know that they have but we need them to check.
2. They may have lent some of our securities to market counterparts who may seize them against other outstanding claims, like failing on a payment or swap.
- 3 They may have lent into triparty alongside the pb assets and when if LBI fails or declares bankruptcy they will liquidate all the securities - they are co-mingled.
4. We are getting mixed messages as to the derivatives. We were told they were exchange traded but now we hear that some may be OTC. If OTC swaps don't get paid, someone can call and event of default and possibly petition to court for bankruptcy, however unlikely in the timescales we are aiming for. More likely is that they will withhold returning collateral.

This will make our ability to cleanly buy the assets and liabilities very difficult.

I think we need a few things....

We need Mcdade or Felder to energise the organisation to get

- Line by line, asset by asset, is it lent out and to whom?
- What is lent to LBIE or other entities in the Lehman group that are in administration/bankruptcy
- What do they need to make variation margin calls against the asset we want, as we may be able to help them with that.
- Resolution of the OTC derivative issue. If they have not traded with any bankrupt Lehman entity it is possible we may be able to novate the whole portfolio to avoid it collapsing.

Rich - we probably need a call on this - is there anyone appointed to the permanent deal team to help here?

John...