

From: Cornejo, Emil [emil.cornejo@lehman.com]
Sent: Monday, September 8, 2008 6:09 PM (GMT)
To: Fleming, Dan (TSY) [dfleming@lehman.com]; Pellerani, Carlo [carlo.pellerani@lehman.com]; Kettle, Graham [gkettle@lehman.com]; Fielding, Stirling [sfieldin@lehman.com]; Rees, Huw [hrees@lehman.com]
Cc: Igoe, Joseph [joseph.igoe@lehman.com]; Mahoney, sara [sarajane.mahoney@lehman.com]
Subject: RE: Meeting with BONY

Carlo, we don't have the legal docs yet, but it would not be a pledge. The money will be in a Lehman account, with some right of offset.

-----Original Message-----

From: Fleming, Dan (TSY)
Sent: Monday, September 08, 2008 2:05 PM
To: Pellerani, Carlo; Kettle, Graham; Fielding, Stirling; Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph; Mahoney, sara
Subject: RE: Meeting with BONY

Graham - Can we change the way the ECP settlement process works at Euroclear. Possibly settle in daylight instead of overnight. Or, can we leverage the collateral we post for chaining at Euroclear to minimize BoNY's exposure.
Dan

-----Original Message-----

From: Pellerani, Carlo
Sent: Monday, September 08, 2008 12:55 PM
To: Kettle, Graham; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph; Mahoney, sara
Subject: RE: Meeting with BONY

Disagree with that view. If we need to have this locked then there is an argument for this not to be available liquidity. Having to deposit \$400m for o/n ECP means there is no point in having any ECP. We need another option or we will shut down the ECP...

-----Original Message-----

From: Kettle, Graham
Sent: 08 September 2008 17:53
To: Pellerani, Carlo; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil

Cc: Igoe, Joseph; Mahoney, sara
Subject: RE: Meeting with BONY

The only reason I say good is the fact we are already placing cash in a BONY money fund, so its not additional - all that would change is that it will be placed on behalf of LBHINY and BONY be taking a pledge over this. Does not effect our liquidity pool.

Reason so large is our ECP activity - USD 400mm and the remainder is coupons and redemptions for other entities. This is caused by the way this activity settles in Euroclear/Clearstream during the overnight chaining process. First thing in the morning BONY's account at Euroclear has been debited. Hence the intraday exposure.

Regards

Graham

-----Original Message-----

From: Pellerani, Carlo
Sent: Monday, September 08, 2008 5:36 PM
To: Kettle, Graham; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph; Mahoney, sara
Subject: RE: Meeting with BONY

Not sure if I am missing the point below but I see nothing positive in having to post \$0.5bn in a MM Fund. Why so large???

-----Original Message-----

From: Kettle, Graham
Sent: 08 September 2008 17:20
To: Pellerani, Carlo; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph; Mahoney, sara
Subject: RE: Meeting with BONY

Carlo/Dan

We had a good meeting with BONY today to flesh out the process which will be as follows

- LBHINY will open a MM fund account with BONY
- LBHINY will invest on day one approx USD 500mm into an onshore MM fund with BONY, this account will be linked internally within BONY to cover all entities where BONY act as our IPA.
- On S-2 BONY will advise us of expected Intraday, if collateral is sufficient no action required. They have set a threshold whereby only requesting us to increase the investment in the MM fund when there is a shortfall of over USD 25mm. Likely that we may need to invest projected short fall on S-1, they may be flexible on this.
- The core investments will be reviewed to ensure we have the optimum amount invested.
- They would only consider arranging a FX swap in exceptional case when it was likely Lehman would never settle.

Action points

- BONY to provide MIS on current intraday usage for all entities. We explained we may want Bankhaus to collateralise themselves, depends on the amount.
- BONY to provide legal documentation for new account for review by our legal.

Regards

Graham

-----Original Message-----

From: Pellerani, Carlo
Sent: Monday, September 01, 2008 3:35 PM
To: Kettle, Graham; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph
Subject: RE: Meeting with BONY

Clearly it does not make any sense to prefund an O/N ECP!!! Pls keep me updated. Thx

-----Original Message-----

From: Kettle, Graham
Sent: 01 September 2008 11:00
To: Pellerani, Carlo; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph
Subject: RE: Meeting with BONY

Most of the Intraday relates to our Maturing overnight ECP trades approx USD 400mm, There is another USD 100mm covering coupons and redemptions mainly relating to EMTN activity in LBHIUK and BV

Regards

Graham

-----Original Message-----

From: Pellerani, Carlo
Sent: Monday, September 01, 2008 10:57 AM
To: Kettle, Graham; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil
Cc: Igoe, Joseph
Subject: RE: Meeting with BONY

OK, but what do they have intraday to exactly? Is it what I mentioned below?

-----Original Message-----

From: Kettle, Graham

Sent: 01 September 2008 10:52

To: Pellerani, Carlo; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil

Cc: Igoe, Joseph

Subject: RE: Meeting with BONY

Carlo

BONY want to eliminate any intraday exposure - due to the way a lot of the settlements occur (In Euroclear as part of the o/n chaining process) first thing in the morning BONY will have an exposure - Even by arranging timed payments, difficult when we are still agreeing sameday cashflows in some cases it still does not eliminate the exposure that BONY see.

They had suggested pre-funding S-1 which was something we pushed back on.

In a conference call with BONY last week that Emil and Paolo attended BONY put forward the proposal that Funds Lehman's have with their Money Fund could be transferred daily to cover any intraday exposure, and at the end of the day funds moved back into the Money fund. If for whatever reason we had failed to pay BONY and it would become an overnight exposure they would hold back funds in a separate account and only the excess would be moved back into the Money fund. Paolo agreed in principal to this option, and we are now finalising the procedures to adopt this.

Regards

Graham

-----Original Message-----

From: Pellerani, Carlo

Sent: Monday, September 01, 2008 9:41 AM

To: Kettle, Graham; Fielding, Stirling; Fleming, Dan (TSY); Rees, Huw; Cornejo, Emil

Cc: Igoe, Joseph

Subject: RE: Meeting with BONY

I need to better understand what the collateral is for? Do they want a deposit relating to payments they have to make when our debt matures or is it something else? If so, can't we just either prioritise this so cash leaves our account first thing? Otherwise, can't we pay one day in advance (de fact making all our maturities ad ay earlier?

-----Original Message-----

From: Kettle, Graham

Sent: 29 August 2008 20:10

To: Fielding, Stirling; Fleming, Dan (TSY); Pellerani, Carlo; Rees, Huw; Cornejo, Emil

Cc: Igoe, Joseph

Subject: RE: Meeting with BONY

I have just received details of the process they want to adopt - I will review in greater detail Monday - there are a couple of points I would like to clarify with them but before I do we should consolidate all our questions etc.

They have agreed to FX swaps in the document only with approval from Lehman's.

Regards

Graham

-----Original Message-----

From: Fielding, Stirling

Sent: Friday, August 29, 2008 7:41 PM

To: Kettle, Graham; Fleming, Dan (TSY); Pellerani, Carlo; Rees, Huw

Cc: Igoe, Joseph

Subject: Re: Meeting with BONY

OK, thanks Graham.

Good we are pushing for leverage on the dollar amount. This is definitely what we want and is consistent with other relationship banks.

But I'm not happy about the swaps. I agree with you that negotiating swaps is much better than outright, that was the right approach. But it is more excessive than any other relationship bank has asked.

I would prefer that we use some senior leverage to try to negotiate out of this.

Huw, Carlo, do you have any thoughts on the probability of success with this?

----- Original Message -----

From: Kettle, Graham

To: Fielding, Stirling; Fleming, Dan (TSY); Pellerani, Carlo; Rees, Huw

Cc: Igoe, Joseph

Sent: Fri Aug 29 19:32:41 2008

Subject: RE: Meeting with BONY

Stirling

They did initially say they did want \$for \$ collateral, but Joe asked for some flexibility on this point especially as they also acknowledged that they were not aware we had not failed to pay or cover any significant intraday balances that turned into an o/d balance over the last few months. They will discuss that further internally.

Re the FX - This is why we said FX swap is our preference as that eliminates creating any fx exposure if they were to do outright fx to

us.

The reason why they would want to do that is they would have to cover their ccy nostro o/d position created by any non-receipt from us.

This fx swap solution would only be in place for significant o/d balances - we are not talking about USD 10-20m balances more USD 100mm. They implied they should be able to accommodate the FX swap but will let us know. We certainly pushed back on the outright fx option.

Regards

Graham

-----Original Message-----

From: Fielding, Stirling

Sent: Friday, August 29, 2008 7:04 PM

To: Kettle, Graham; Fleming, Dan (TSY); Pellerani, Carlo; Rees, Huw

Subject: Re: Meeting with BONY

Thanks Graham.

Are they expecting one dollar of collateral for every dollar of intraday?

I think their FX idea is excessive. We are already collateralising simple overdrafts, we shouldn't have to collateralise overnight FX exposure as well.

Did they say this was necessary or was it a general point?

----- Original Message -----

From: Kettle, Graham

To: Fielding, Stirling; Fleming, Dan (TSY)

Sent: Fri Aug 29 18:32:47 2008

Subject: Meeting with BONY

Had a conference call today with Emil, Joe Igoe, Craig Goldband and senior BONY staff in NY and London to discuss intraday

The proposal is that we use funds invested in BONY MM funds and move into a new account

* Daily we will discuss S-1 expected intraday and on S they will transfer from the Money fund into the new account to collateralise all Lehman activity - LBHIUK ECP/EMTN, BV EMTN, LB Capital Funding structures and LBSNV warrants.

* At close of business any funds not received by BONY (accounts o/d) will remain in the new account and excess transferred back into the money funds.

* BONY had suggested that if any ccy account was o/d, because we have USD they would do an outright fx across the accounts to flatten the o/d account and once funds received fx it back at the market rates applicable. We were not happy with this and did not want to be subjected

to additional FX exposure so requested they did an fx swap instead - BONY will investigate feasibility.

* The intraday calculations will also take into account any new issuance proceeds so not to penalise us for this.

* We need to advise BONY which legal entity the new account should be opened in - suggestion is LBHINY as we have USD invested in their Money fund. Their ccy Money funds are too small to meet our investment criteria. Craig Goldband is reviewing the various funds.

* We cant have a non-US based entity investing onshore.

* Sounds like they want to move quickly on this and are drawing up documentation for next week.

* We will need to discuss the finer details of the operational side of this with them. Na internally how we record the flows across this new cash account - including booking fx swaps etc.

FYI there is a very senior BONY meeting with Lehman's in NY with member of the exec board , Ian Lowitt etc, I suspect that this proposal will be discussed and the fact we have worked with BONY on this and are in in general agreement should be seen as positive

Regards

Graham

Graham Kettle
Cash and Collateral Management

Tel +44 207 102 2524
Email gkettle@lehman.com