

From: Igoe, Joseph [joseph.igoe@lehman.com]
Sent: Tuesday, September 9, 2008 4:31 PM (GMT)
To: Durrant, Steve [sdurrant@lehman.com]; Seel, John [john.seel@lehman.com]; Rees, Huw [hrees@lehman.com]; Pellerani, Carlo [carlo.pellerani@lehman.com]
Cc: Shambayati, Soroosh [soroosh.shambayati@lehman.com]; Lovett-Turner, Charlie [charles.lovettturner@lehman.com]; Page, Tim [timothy.page@lehman.com]; Martin, James (Equities) [jamartin@lehman.com]; Fielding, Stirling [sfieldin@lehman.com]; Goldband, Craig [cgoldban@lehman.com]; Danechi, Michel [michel.danechi@lehman.com]; Maynard, Ian [imaynard@lehman.com]; Gardner, Jonathan [jgardner@lehman.com]; Wells, Nicholas [nwells@lehman.com]; Nicholson, John C [JNichols@lehman.com]; Lawrence, Shaun [SLawrenc@lehman.com]; Pinnock, Matthew [matthew.pinnock@lehman.com]; Boyle, Julie [julie.boyle@lehman.com]; Mahoney, sara [sarajane.mahoney@lehman.com]; Seeranj, Jonathan [jonathan.seeranj@lehman.com]
Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

Below is a brief chronology of the events and issues we are having with Standard Bank.

- * March: Standard Bank asked for collateralization of our Securities custody and clearing account with them. We pushed back on this, increasing our relationship contact with them and providing them with updates on Lehman's results as counter to the less than balanced coverage in the local press
- * August: Demands for collateralization of settlement activity increased, partly caused by due to a delayed payment of ca. ZAR 2.5 when Citibank was late in paying our cash agent, First Rand, who in turn was late in paying Standard Bank.
- * The week of August 18th Standard Bank informed us that they would not settle trades without a collateralization agreement. This is apparently a board level decision We agreed to discuss this option with them.
- * September 4th, Stirling Fielding, Sara Mahoney, Jon Seeranj spoke Standard Bank relationship, operations and legal departments, where they laid out their demand for \$ 200M in collateral, to be split among fixed income (ZAR 1B) and equities (ZAR 500M).
- * On the 4th agreed in principle to collateralize the exposure, but noted that we thought \$ 200M would most likely represent a significant

overcollateralization of the level of activity over the accounts. Also agree to measure our level of activity and revert with a counter proposal.

* Agreed Standard will send a deposit agreement for comment (our goal to ensure funds can still be considered liquidity). Waiting for this still.

* Friday Sept 5th, Standard Bank London (Peter Gardner) turned us down for FX citing management directive

* Friday Sept 5th, Standard Bank informed us that unless we deposited \$ 200M by today they would not settle any of our trades. Faced with this we have deposited \$ 200M with them. This is counter in spirit to the conversation we had on Thursday.

* Presently negotiating rates and currencies of the deposits

* Also in the process of determining a more reasonable, accurate estimate of net settlement flows over our accounts with them in order for us to reduce the size of the deposit.- expect to have the data from settlements shortly.

* Additionally, we are dealing with Standard Bank turning us down in the broker market for a small SA government repo

Our contacts are:

* Hugh Lilienfeld (now retired)

* Marius van Zyl, his temporary replacement

* Derek Finlayson, Head of FI

If anyone has a contact with leverage, please let either Huw Rees or me know. Our immediate goal is to reduce the amount of the deposit, keep trading lines open (CSA's and ISDA's are in place for the main entities) and maintain our ability to trade in the market unhindered.

Joseph A. Igoe

Director

Treasury- Creditor Relations

> LEHMAN BROTHERS

25 Bank Street | London, E14 5LE

> * Direct: +44 (0)20 710 25489

> * Mobile: +44 (0)7768 487903

> * E-mail: joseph.igoe@lehman.com

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> From: Durrant, Steve

> Sent: 08 September 2008 11:23

> To: Seel, John; Rees, Huw; Pellerani, Carlo

> Cc: Shambayati, Soroosh; Lovett-Turner, Charlie; Page, Tim; Martin, James (Equities); Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian; Gardner, Jonathan; Wells, Nicholas; Nicholson, John C;

Lawrence, Shaun; Pinnock, Matthew; Igoe, Joseph; Boyle, Julie; Mahoney, sara; Seeranj, Jonathan

> Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

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> FYI - Citi do not have a local presence in SA but use a Third Party agent (FNB).

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> From: Seel, John

> Sent: Monday, September 08, 2008 11:07 AM

> To: Rees, Huw; Pellerani, Carlo

> Cc: Shambayati, Soroosh; Lovett-Turner, Charlie; Page, Tim; Martin, James (Equities); Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian; Gardner, Jonathan; Wells, Nicholas; Nicholson, John C; Lawrence, Shaun; Pinnock, Matthew; Igoe, Joseph; Boyle, Julie; Durrant, Steve>

> Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

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> Why do we need to clear thru SBSA? If this is their attitude we should find another provider. We use Citi's clearing/settlement platform in other emerging markets; can we move to Citi in South Africa too?

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> From: Rees, Huw

> Sent: 08 September 2008 10:42

> To: Pellerani, Carlo

> Cc: Shambayati, Soroosh; Lovett-Turner, Charlie; Page, Tim; Martin, James (Equities); Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian; Gardner, Jonathan; Wells, Nicholas; Nicholson, John C; Lawrence, Shaun; Pinnock, Matthew; Igoe, Joseph; Boyle, Julie; Durrant, Steve; Seel, John

> Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

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> Carlo

> We have had a number of conversations with our relationship contacts in South Africa about the relationship -- including the clearing and custody limits (as highlighted by Jon below), FX and Secured Financing.

> At present, the biggest issue is responding to the Bank's demand, late Friday, that we deposit \$200M with them or face shut-down of clearing. We are also elevating the turndowns of Friday and this morning and will report back on this later today.

> Given that the extreme reaction of Standard Bank which, we are told, is Board Level decision, we will be escalating this as far as possible.

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> From: Pellerani, Carlo

> Sent: 08 September 2008 10:10

> To: Rees, Huw

> Cc: Shambayati, Soroosh; Lovett-Turner, Charlie; Page, Tim; Martin, James (Equities); Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian; Gardner, Jonathan; Wells, Nicholas; Nicholson, John C; Lawrence, Shaun; Pinnock, Matthew

> Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

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> Huw, please speak to them

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> From: Page, Tim

> Sent: 08 September 2008 09:53

> To: Martin, James (Equities); Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian; Gardner, Jonathan; Wells, Nicholas; Nicholson, John C; Lawrence, Shaun; Pinnock, Matthew; Pellerani, Carlo

> Cc: Shambayati, Soroosh; Lovett-Turner, Charlie

> Subject: RE: **URGENT - Please Read** South Africa - Collateral and funding requirements to facilitate settlement

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> South Africa is a key part of EM franchise, a growing business and one of the most traded currencies in the world. If we are to send out a message that we do not bother / cannot resolve this then I think the repercussions for the firm could be wider than some may consider. My seniors will be able to comment further.

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> Tim Page

> Emerging Markets Trading

> Lehman Brothers
> Global Foreign Exchange
>
> T +44 (0) 207 103 3010
> M +44 (0) 778 994 4807
> F +44 (0) 207 067 9157
> email: tpage@lehman.com
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> From: Martin, James (Equities)
> Sent: 08 September 2008 09:29
> To: Fielding, Stirling; Goldband, Craig; Danechi, Michel; Maynard, Ian;
Gardner, Jonathan; Wells, Nicholas; Nicholson, John C; Lawrence, Shaun;
Pinnock, Matthew; Page, Tim; Pellerani, Carlo
> Subject: RE: **URGENT - Please Read** South Africa - Collateral and
funding requirements to facilitate settlement
>
> All
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> I have be turned down in the broker market by Standard Bank, they were
looking to borrow SA Gov bonds from me.
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> Clearly being rejected by your agent bank from a Credit perspective is
not a great message to get out into the market.
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> This message will travel as the local market is small & they all talk with
each other.
>
> What steps are we taking to get this resolved .
>
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> From: Seeranj, Jonathan
> Sent: Thursday, September 04, 2008 4:10 PM
> To: Fielding, Stirling; Goldband, Craig; Barrio, Maria; Igoe, Joseph;
Mahoney, sara; Durrant, Steve; Davis, Steve; Danechi, Michel; Maynard,
Ian; Martin, James (Equities); Gardner, Jonathan; Wells, Nicholas; Duggan,
Philip; McCombie-Lawrence, Alison
> Subject: **URGENT - Please Read** South Africa - Collateral and
funding requirements to facilitate settlement
> Importance: High
>

> All
>
> Our South African Custodian (Standard Bank SA) are in the process of revising our legal documentation and funding cut offs, while also imposing a collateral requirement on us to off-set their risk to LBIE
>
> Essentially they are asking us to pre-fund settlement on T+3 (settlement occurs on T+5) as well as posting a substantial amount (\$200m equivalent) of collateral into a separate cash account pledged to SBSA
>
> It should be noted that Standard Bank will start to fail our trades should we not provide funding on time (or have sufficient collateral in place) on T+3 in accordance with their revised funding cut-offs
>
> I will set up a meeting for Tuesday at 15:30 (as this is the earliest the majority of you are free) to discuss the implications and potential internal workaround solutions
>
> Please see Standards Bank's current proposal and revised funding timings attached
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> << File: LB High-level Ops process principle.ppt >> << File: LB Equities proposal.pdf >> << File: LB Bonds proposal.pdf >>
> Thanks
> Jon Seeranj
>
> * Network Management
> * Ext 28893
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