

**Hughes  
Hubbard  
& Reed**



# **Lehman Brothers Inc.**

Case No. 08-01420 (SCC) SIPA

The Honorable Shelley C. Chapman, Presiding

James W. Giddens, Trustee

State of the Estate

September 17, 2018

# DISCLAIMER

**This State of the Estate Presentation is intended to be read in conjunction with the Trustee's Eighteenth Interim Report, filed on May 1, 2018, and the LBI Liquidation Balance Sheet as of June 30, 2018, filed on July 30, 2018, available at [www.lehmantrustee.com](http://www.lehmantrustee.com).**

The information herein is based on the information available to the Trustee at this time, but this information may be incomplete and should not be relied upon. This presentation was prepared for purposes of presenting the Court with a status of the LBI liquidation proceeding as of the date of the presentation and is not meant to be relied upon by investors or others as a complete description of the LBI Estate's condition (financial or otherwise), prospects, assets, or liabilities. The information in this presentation will be updated, including any corrections, in connection with future Interim Reports, Balance Sheets, and presentations to the Court. The information in this presentation is not prepared in accordance with U.S. generally accepted accounting principles. The realized value of certain assets may be zero or different from the estimates on which this presentation is based. Selected balances and information presented herein have not and will not be subject to audit or review by external accountants. The Trustee reserves all rights to revise this presentation.

# Table of Contents

- I. Overview of the LBI Liquidation – Past and Present
- II. Navigating the “Fog of Lehman”
- III. Customer Estate
- IV. LBI’s Affiliates
- V. Marshalling Assets
- VI. General Estate
- VII. Legal Precedents
- VIII. Transparency
- IX. Substantial Completion
- X. SIPC’s Statutory Role
- XI. Trustee’s Recommendations

# **I. Overview of the LBI Liquidation – Past and Present**

# The LBI Liquidation

The Trustee was appointed at 1:18 PM on September 19, 2008, by the United States District Court for the Southern District of New York. Under the oversight of this Court and the Securities Investor Protection Corporation, the Trustee and his team immediately took control of the firm's books and records and began marshalling assets.

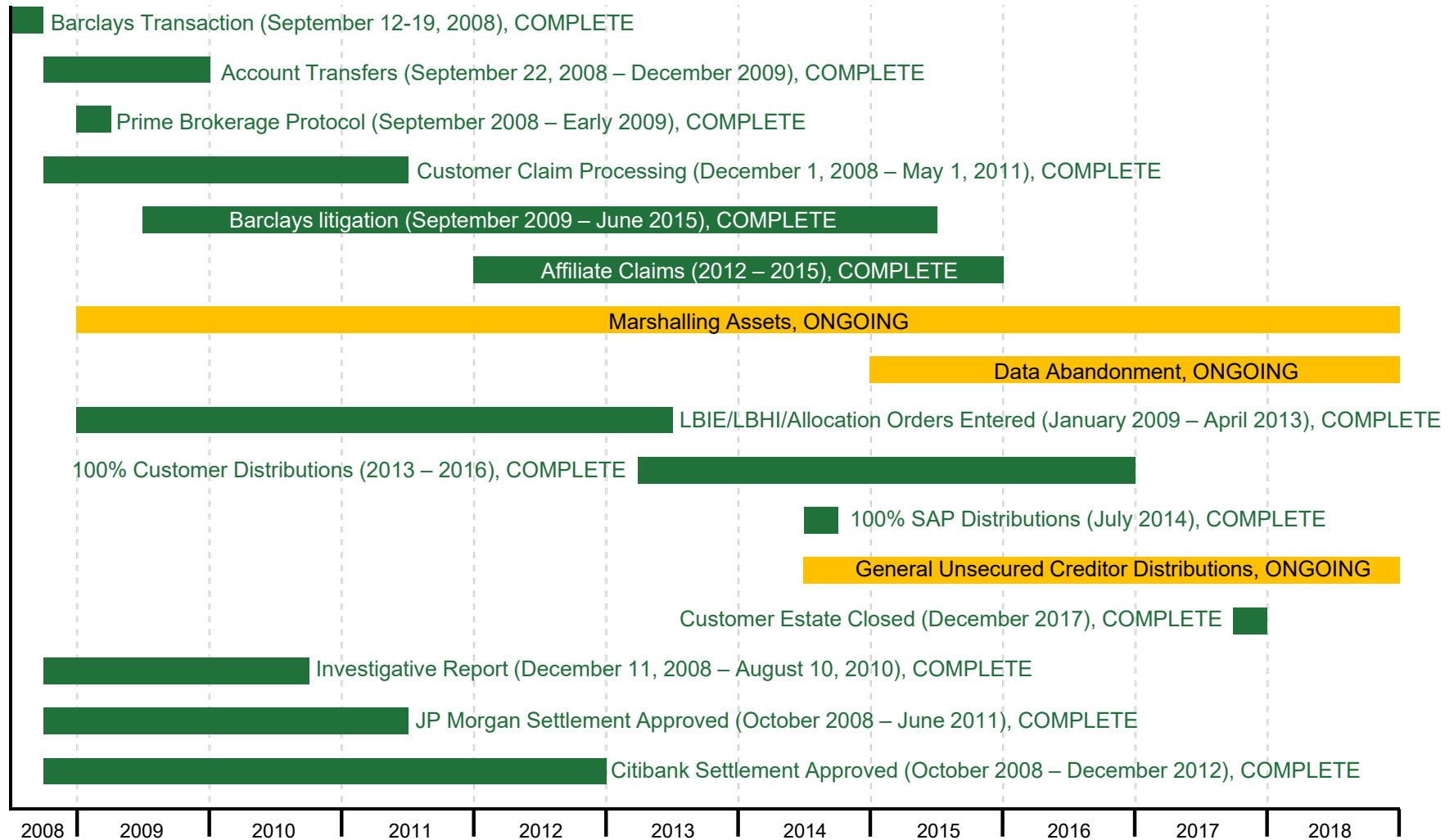
The process of restoring securities and cash to customers began hours later under the Securities Investor Protection Act and procedures reflecting the safeguards of our nation's securities laws.

We are now in the final phase of the wind down. The Trustee's principal goal is to resolve the sole remaining claims dispute as promptly as possible in the best interests of LBI's creditors, marshal all remaining legacy assets, and close the estate with a final distribution. This could occur in the next year, depending on the appellate schedule.

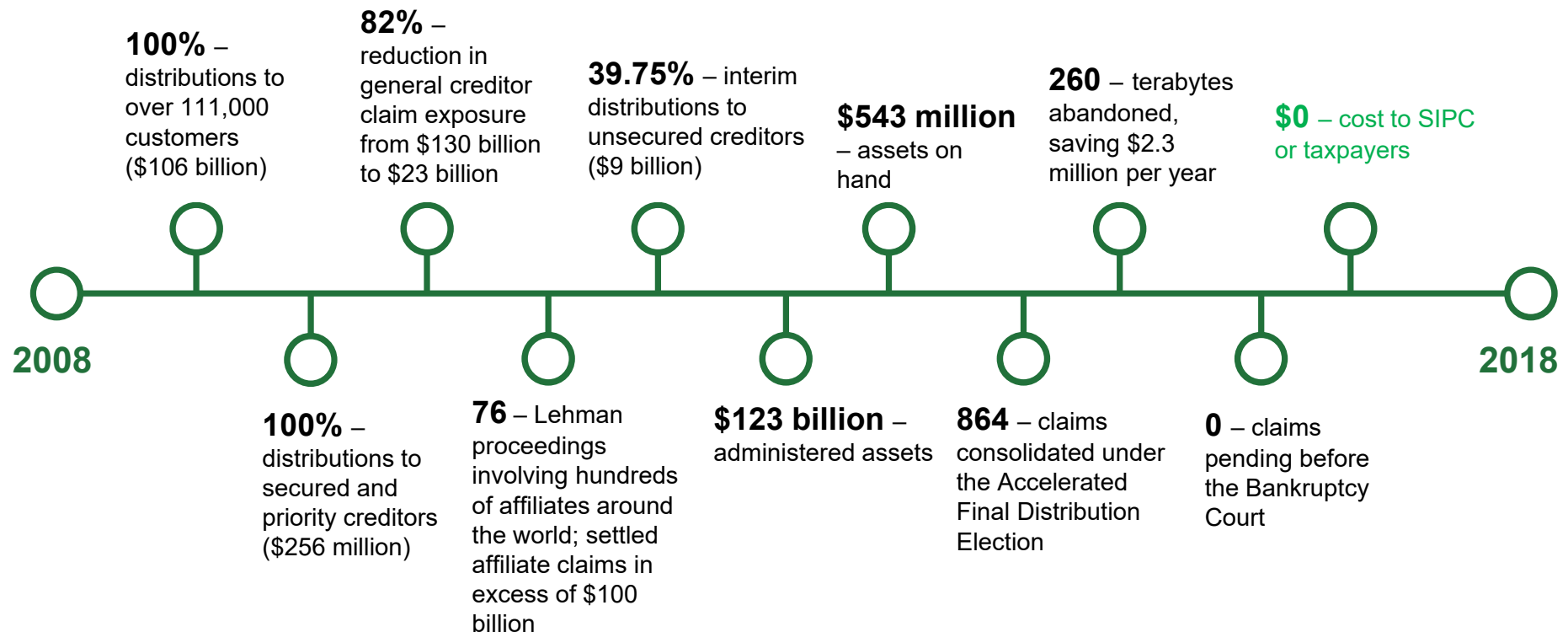
The story of the LBI liquidation and lessons learned by the Trustee are being shared to assist future liquidation proceedings in efficiently and fairly returning assets to customers and creditors, and to inform policy makers so as to continue to reduce the risk of a Lehman event in the future.

This proceeding has been a success, but ten years later the key lesson of Lehman remains that such a failure should be avoided altogether, for the benefit of all stakeholders.

# The LBI Estate Administration: 2008-2018



# The LBI Estate Today



# September 19, 2008

**On September 19, 2008, the Trustee faced a liquidation of unprecedented complexity amidst the worst economic crisis since the Great Depression.**

**The Trustee confronted a multitude of issues:**

- The immediate need to transfer over 110,000 customer accounts worth over \$90 billion to avoid catastrophic market disruption
- The pre-negotiated sale of substantially all U.S. brokerage assets (but not all liabilities and not all accounts) to Barclays
- Competing claims between the Trustee, Barclays, LBIE, LBHI, and affiliates to various assets, employees, systems, and other basic information
- Massive claims and assets in Omnibus Accounts with LBIE subject to different legal rules, different filing dates, and a lack of information regarding the accounts
- The need to marshal billions of dollars of assets held at various depositories around the globe
- The need to unwind billions of dollars of LBI proprietary financial transactions
- Tens of thousands of potential customer and general creditor claims for tens of billions of dollars



## **II. Navigating the “Fog of Lehman”**

# The Fog of Lehman

**Chaotic conditions — which the Bankruptcy Court termed the “Fog of Lehman”—marked the early days of the LBI bankruptcy administration.**

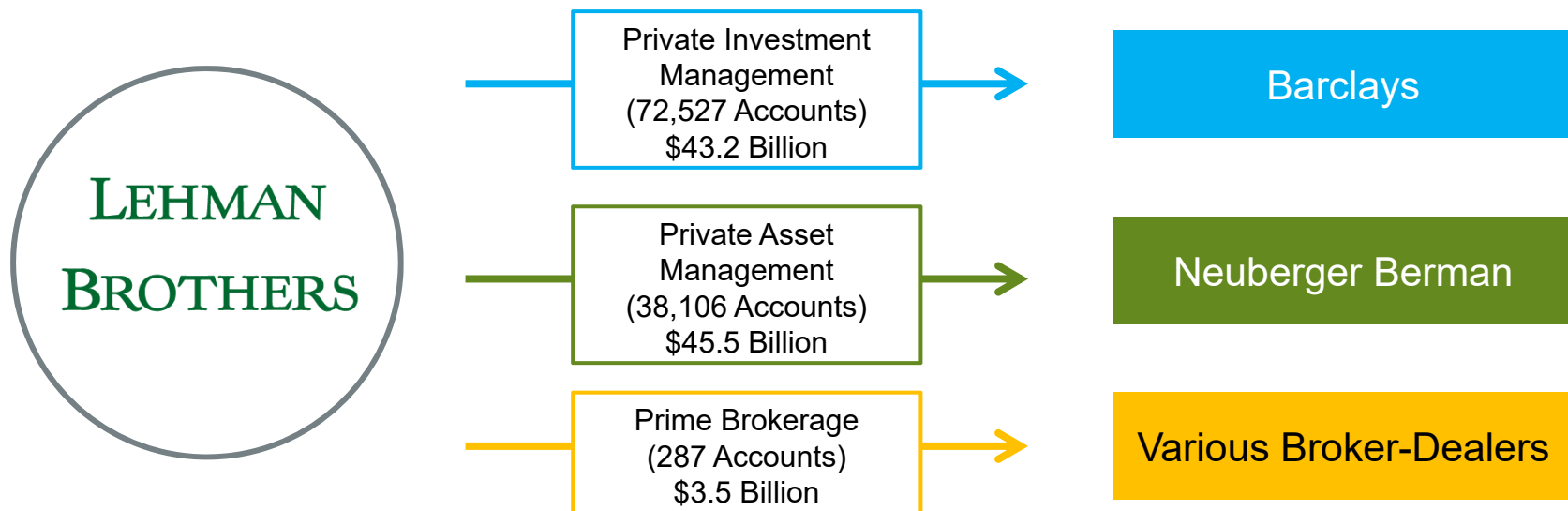
**Huge gaps in available information, general market unpredictability, various administrative obstacles and the lack of prompt transparency into counterparty actions generated this “fog.”**

**The Trustee faced a myriad of hurdles upon his appointment, including:**

- No existing staff—as LBI’s former employees transferred to Barclays as part of the Asset Purchase Agreement
- Limited access to vital information and systems, much of which adversaries—such as Barclays, LBIE, or LBHI and its affiliates—controlled
- Counterparties’ liquidation of collateral with limited notice to the Trustee, limited transparency into the liquidation process and limited certainty as to the outcome of the liquidation
- Limited access to LBI’s assets or accounts at various financial institutions and limited information on the status and balance of such assets and accounts
- Some foreign affiliates’ unwillingness or inability to coordinate on key matters, including unwinding financial transactions or information sharing

# Overview of Customer Account Transfers

- The Trustee's professionals substantially completed the transfer of over **110,000 accounts** with a value of over **\$92 billion** within weeks of the largest bankruptcy in history, avoiding market disruption and providing ready account access to LBI's former customers.
- The account transfers allowed for the expeditious resolution of over **99%** of customer accounts. This tool proved invaluable to the estate, freeing administrative resources and allowing the Trustee to focus on a substantially reduced population of contested customer accounts.
- The Trustee accomplished these customer account transfers with basic information and limited access to LBI's systems, and without assistance of former LBI employees.



# Prime Brokerage Transfers

The Trustee entered the Protocol Regarding Prime Brokerage Arrangements in October 2008, creating a consensual, voluntary process for the orderly transfer of prime brokerage accounts to operating broker-dealers by detailing the rules and procedures for reconciling accounts, closing out financial instruments and transferring account assets.

The protocol's success—and the Trustee's ability to deliver significant customer property to customers in advance of the claims process—is a testament to SIPA's power and the flexibility it affords to SIPA trustees, and the expertise of the Trustee and his professionals in executing the protocol in the best interest of LBI's former customers.

- **Transfers Accomplished:** 287 accounts with a value of approximately \$3.5 billion, amounting to 75% of LBI's prime brokerage business at the time of LBI's failure.
- **Regulatory Role:** The Trustee's professionals worked closely with SIPC, the SEC, FINRA, and SIFMA to identify and value available assets and effectuate their transfer to solvent broker-dealers of the account holders' designation.
- **Account Holder Reconciliations:** The Trustee's professionals worked individually with account holders to confirm account assets and liabilities and agree on transferable amounts and holdbacks for non-reconciled liabilities. Due to the complex nature of the account holders' trading and their participation in non SIPA-protected transactions, it was not simply a matter of transferring the entirety of the accounts.
- **Worldwide Depository and Clearing Bank Cooperation:** Assets related to the accounts were located at depositories domestically and worldwide and were not all immediately available. The Trustee negotiated with these depositories and clearing entities to make available billions in initially-frozen assets, including cash collateral swaps that permitted the near-term transfer of customer securities.

# Data Systems

**Out of the 2,700 proprietary data systems—which ranged from systems designed to coordinate coffee refills on the trading floor and schedule travel reservations for senior executives to managing customer and firm assets—the Trustee preserved 130 systems.**

- The amount of information moved exceeded 142.5 Terabytes, which, if printed, would yield a stack of paper nearly 1,350 miles high—or more than 245 times the height of Mt. Everest.
- The Trustee collected more than 223 billion records documenting historical transactions. This information is stored in more than 128 thousand tables in 651 databases.

**Systems Fully Migrated:** 130 of 130

**Number of Databases:** 651

**Number of Tables:** 128,509

**Data Collected (GB):** 142,535

**Number of Records:** 223,166,163,324

# Administrative Office

**After the filing date, the Trustee was left without any office space to manage the liquidation. In January 2009, the Trustee opened the office of the LBI estate, which occupied the entire 17<sup>th</sup> Floor at 100 Wall Street.**

- Within a few short months of the liquidation order, the Trustee had to build an office space from the ground up because Barclays took over the LBI offices pursuant to the Asset Purchase Agreement.
- At its peak, **over 150 employees, consultants, and other professionals** dedicated their services to every work stream of the LBI estate.
- Many high-level meetings with regulators, affiliates, and litigation adversaries were also held at the Trustee's office.
- As claims reconciliation, marshalling of assets, and litigation activities wound down, the need for the office was significantly reduced. **The office was closed in July 2015.**

# Transition Service Agreements

**To ensure access to information systems and certain finance, treasury, front office, operations and IT infrastructure services, the Trustee entered into transition service agreements (TSA) with both Barclays and LBHI.**

- The Barclays TSA, approved by the Bankruptcy Court in February 2010:
  - Provided the Trustee and his professionals critical services, necessary to evaluating claims asserted in the liquidation and carrying out the liquidation of LBI.
  - Established the “ringfence team,” a team of former LBI back-office employees dedicated to providing services to the Trustee and his professionals.
    - In 2010/2011, certain ringfence team members became employees of the estate. Some team members were employed by the estate through the beginning of 2016.
  - Included continued access to the Lehman legacy documents, at a reduced cost.
- The LBHI TSA provided coverage of services that LBI could no longer perform, that were not included in the Barclays TSA.
- Over \$83 million of \$85 million in total TSA charges were paid to Barclays.

# Barclays Transaction

**The emergency transaction between LBHI and Barclays, in the days and hours before the LBI liquidation commenced, occurred under the Fog of Lehman, in some of the most dire circumstances in the nation's financial history. The Barclays Transaction embodied in the Asset Purchase Agreement provided a number of benefits to the LBI Estate but, ultimately, had a significant negative impact on the LBI general estate.**

## **BENEFITS**

### **IMMEDIATE TRANSITION TO NEW, SOLVENT BROKER DEALER**

The Barclays Transaction enabled a significant portion of LBI's customers to transition to a new, solvent broker-dealer.

### **CONTINUED EMPLOYMENT AND REDUCED CLAIMS AGAINST THE ESTATE**

The Barclays Transaction provided several thousand former Lehman personnel continued employment, thereby also reducing potential claims against the estate.

The Barclays Transaction relieved the general estate of approximately \$2.4 billion of other potential claims.

## **NEGATIVE IMPACT**

### **LIMITED ACCESS TO INFORMATION**

The Trustee could only access basic information from LBI's legacy systems by negotiating a separate Court-approved Transition Service Agreement, which was expensive, cumbersome and severely impacted the efficiency of the Trustee's administration and caused significant delays.

### **OVER SIX YEARS OF LITIGATION**

Shortly after execution of the Asset Purchase Agreement, Barclays and the Trustee disputed whether Barclays had purchased certain assets and assumed certain obligations.



# Barclays Litigation

**Over the course of six years, the Trustee pursued litigation in the Bankruptcy Court, District Court, Second Circuit and the Supreme Court over whether Barclays had purchased certain assets and assumed certain obligations as part of the Barclays Transaction.**

- During the litigation, 31 fact witnesses and 8 expert witnesses testified, portions of 52 deposition transcripts were designated as part of the record, and more than 1,100 trial exhibits were moved into evidence.
- The litigation entailed 34 days of evidentiary hearings and closing arguments, and it spanned the Bankruptcy Court, District Court, Second Circuit, and Supreme Court.

# Barclays Settlement

On June 5, 2015, the Trustee and Barclays agreed to a global settlement that resolved all ongoing and potential litigation.

The Trustee paid Barclays approximately \$1.3 billion in margin assets to which Barclays was entitled under District Court and Second Circuit rulings, and released \$583 million from the Barclays litigation reserve to LBI's general estate, allowing the Trustee to effectuate a third interim distribution to general creditors.

Ultimately, the transaction had a significant negative impact on the LBI general estate:

## ASSETS BARCLAYS ACQUIRED FROM LBI

\$4.5 billion net value of repurchase agreement collateral  
\$769 million in Rule 15c3-3 Assets  
\$2.6 billion in Clearance Box Assets  
\$5.3 billion in Margin Assets  
72,527 customer accounts, with assets of \$43 billion  
10,000 Lehman employees  
Intellectual property rights

**Total = \$11.869+ billion, high worth customer accounts, employees, IP rights, position in North American market**

## CONSIDERATION BARCLAYS PAID

\$250 million in cash paid to DTCC  
\$1.95 billion in employee bonus, severance, and tax obligations, paid to third parties  
\$238 million in contract cure liabilities, paid to third parties

**Total = \$2.438 billion paid to third parties, on account of LBI obligations (\$0 paid directly to LBI)**

## **III. Customer Estate**

# Customer Claims Process

Although the Customer Account Transfers made the vast majority of LBI customers whole, institutional accounts and accounts that Barclays declined to accept based on their composition, complexity, or apparent lack of value were not included in the Customer Account Transfers. These account holders filed claims seeking customer status under SIPA.

To determine these remaining customer claims, most of which were based on complicated financial products, the Trustee's professionals employed a multi-tiered review process:

## Tier One

### **(Deloitte triage):**

Deloitte researched and proposed a claim determination.

## Tier Two

### **(HHR legal determination):**

HHR reviewed Deloitte's recommendation and approved the determination or requested that Deloitte conduct additional research.

## Tier Three

### **(SIPC review and approval):**

SIPC reviewed HHR's recommendation and either approved the recommended determination or requested additional information.

**The Trustee determined more than 14,000 customer claims.**

**12/1/08**

Claim Forms  
Available

**6/1/09**

Final Customer  
Claim Bar Date

**3/1/10**

All Non-Affiliate  
Claims Determined

**5/1/11**

All Customer  
Claims Determined

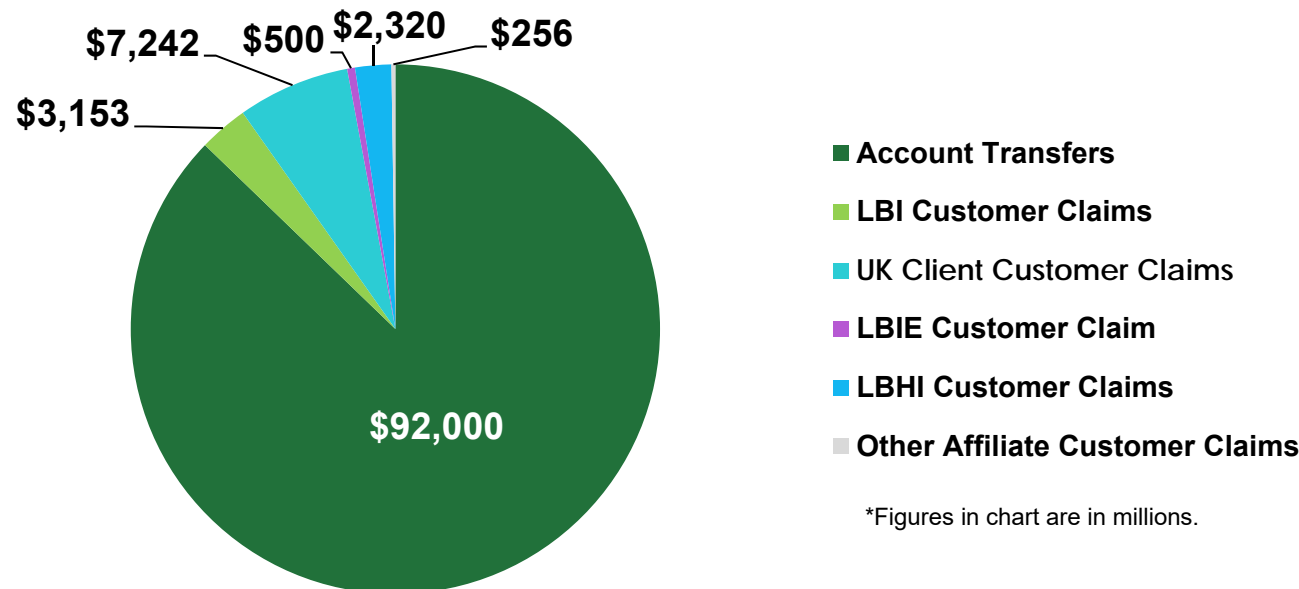
# Customer Estate Allocation: 100% Distributions to Customers

**The Allocation Order, entered on April 16, 2013, approved the allocation of \$15.2 billion in cash and securities to the customer estate and allowed the Trustee to make 100% distributions to allowed customer claims beginning on June 7, 2013.**

- The Allocation Order approved the Trustee's proposed distribution methodology, under which the Trustee satisfied allowed customer claims with in-kind securities or through cash-in-lieu of securities to the extent that securities were unavailable.
- The Allocation Order also directed the Trustee to allocate and distribute to customers cash dividends and the interest the LBI estate received following the petition date using a "follow the security" methodology, whereby customers that received securities via the customer distributions also received the post-petition cash generated by the security (to the extent received by the Trustee).
- The Allocation Order endorsed important SIPA legal principles and provided certainty and finality to the distribution process.

# Customer Estate Closure: 100% Distributions to Customers

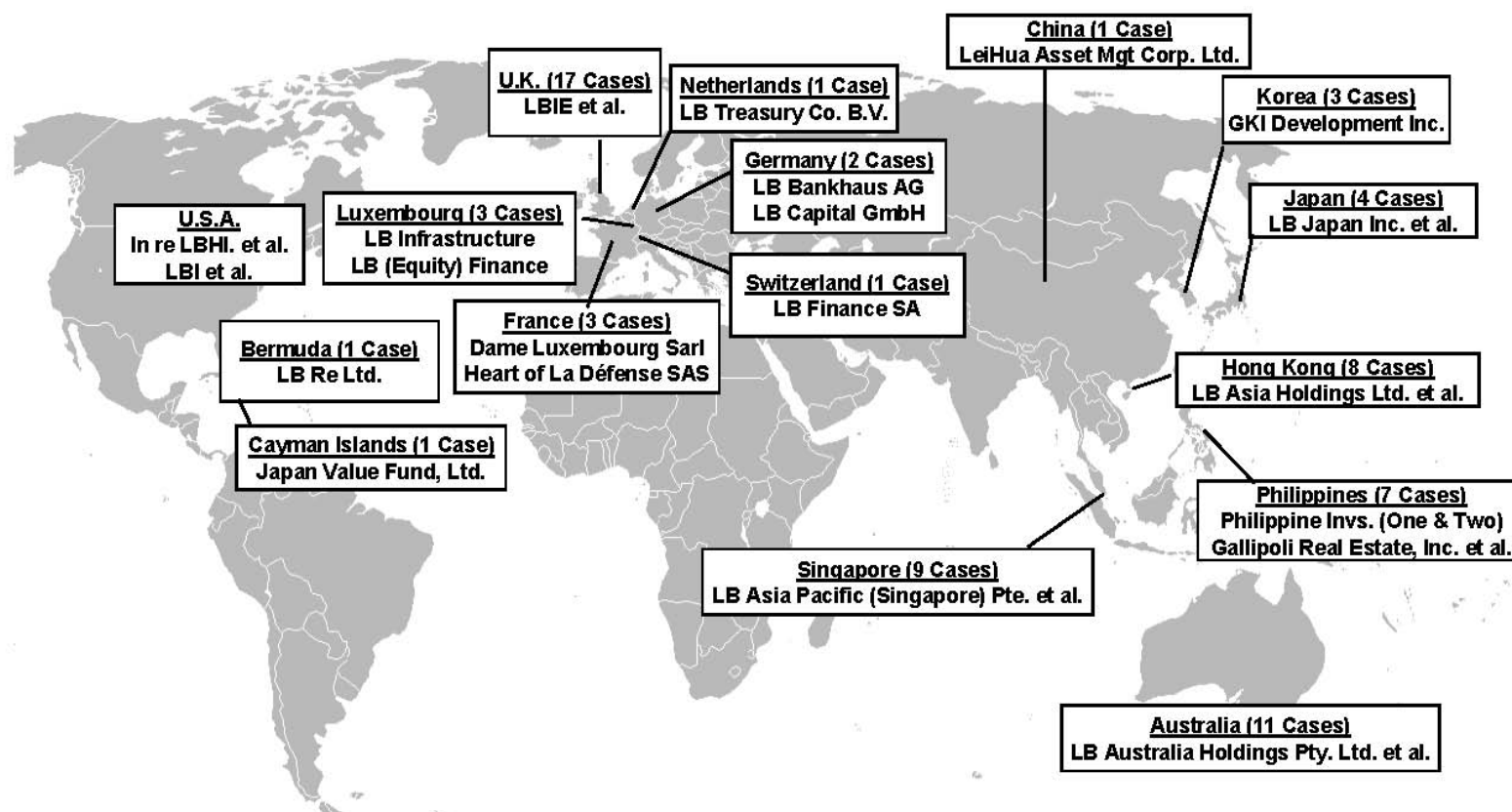
- The LBI estate faced over **125,000** customer claims with an aggregate asserted value of more than **\$180 billion**.
- The Trustee completed distributions on all allowed customer claims, distributing approximately **\$106 billion** to over **111,000** customers. This includes **\$13.5 billion** distributed to approximately **1,000** customers through the customer claims process in full satisfaction of all allowed customer claims.
- The Trustee closed the customer estate in December 2017, after resolving the last remaining customer claim.
- The Trustee reallocated a total of **\$3.112 billion** in excess customer property from the customer estate to the general estate over the course of this SIPA liquidation.



## **IV. LBI's Affiliates**

# Worldwide Affiliate Proceedings

There were **76** Lehman Brothers proceedings involving hundreds of affiliates in **16** jurisdictions.





# LBIE Claims

**LBIE sought customer status for approximately \$24 billion in claims—a sum that, by itself, exceeded all prior SIPA proceedings in their entirety combined, and, if allowed, would have exceeded all assets in the LBI Estate at the time of the claim filing.**

**The complexity of the LBIE Claims cannot be understated:**

- **Mismatches between netted balances and positions in accounts:** LBI operated for one week after LBIE commenced insolvency proceedings. During that time, LBIE did not perform certain functions as it would in the ordinary course of its business (such as covering short sales). This led to a mismatch between the netted balances and positions in certain “Omnibus Accounts” at LBI and the aggregate balances and positions in the individual LBIE Client Accounts maintained at LBIE.
- **Three-year manual reconciliation of LBI’s books and records:** The Trustee’s professionals undertook a three-year manual reconciliation of LBI’s books and records with real-world activity on an individual security level to identify settled, canceled and failed trades.
- **Failed trades claims:** Claims asserted by LBIE with respect to more than 100,000 “failed to deliver to LBI” trades and over 95,000 “failed to receive from LBI” trades.
- **Duplicative claims:** Approximately 300 claims with an estimated value of \$13 billion that had been asserted by former LBIE clients against the LBI estate but were duplicative of LBIE’s Claim for the value of the Omnibus Accounts.

# LBHI Claims

**LBHI and its affiliates asserted customer claims of approximately \$20 billion and general creditor claims of \$20 billion against the LBI Estate.**

- **Transfer of LBI subsidiaries and IP:** The LBHI Claims involved a dispute arising from the transfer to an LBHI affiliate of certain LBI subsidiaries and intellectual property worth hundreds of millions of dollars in exchange for a Payment-in-Kind Note, effected immediately prior to the Trustee's appointment.
- **LBHI proprietary assets:** LBHI and its affiliates asserted customer claims based on proprietary transactions they conducted through accounts at LBI, intercompany accounts, third-party collateral accounts, foreign exchange transactions, over-the-counter derivatives transactions, repurchase and reverse repurchase transactions, and fixed income and equity trading.
- **Intercompany expense-sharing:** LBHI and its affiliates submitted general creditor claims based on the complex intertwining of the business functionalities of LBHI and LBI, including intercompany balances, tax liability, pension settlement, audit contributions, repayment of advanced funds, restricted stock awards, SEC lending funds, intercompany note interest, repurchase and reverse repurchase transactions, derivatives, and other transactions.

# LBIE and LBHI Settlements

**In February 2013, the Trustee reached settlements with both LBIE and LBHI:**

- On February 21, 2013, after lengthy negotiations, and with the assistance of the Bankruptcy Court, the Trustee and LBHI reached a settlement that reduced LBHI's customer claims to **\$2.3 billion** and reduced its general creditor claims to **\$14.2 billion**.
- On February 26, 2013, after lengthy negotiations, and with the Bankruptcy Court's support and encouragement, the Trustee and the LBIE Joint Administrators reached a settlement that replaced LBIE's asserted \$24 billion claim with an allowed customer claim of **\$7.5 billion** for the benefit of LBIE's underlying clients, an allowed **\$500 million** customer claim for LBIE, and a **\$4 billion** general unsecured claims.

**By removing uncertainty and the need for significant reserves, the LBIE Settlement was the “key” that opened the door to distributions to customers and general creditors.**

United States Bankruptcy Judge James M. Peck referred to the resolution of the LBIE Claims and LBHI Claims as “one of the most complex matters to ever be resolved in history . . . , at least in a commercial sense.”  
(Apr. 16, 2013 Tr. 41:24-42:1)

# Affiliate Claims Settlements

The Trustee addressed 49 claims asserted by other Lehman affiliates through a series of settlements and claims determinations that resolved nearly \$4 billion in asserted customer claims for allowed customer claims aggregating **\$256 million** and tens-of-billions in asserted general creditor claims for allowed claims aggregating to **\$2 billion**.

- **Lehman Brothers Bankhaus AG:** Settlement reduced \$1.35 billion of asserted customer and unsecured claims to an allowed general creditor claim of \$550 million.
- **Lehman Brothers Finance A.G. (LBF):** Settlement replaced a \$6 billion asserted customer claim with a \$189.9 million allowed customer claim and a \$360 million allowed unsecured general creditor claim.
- **Lehman Brothers Japan Inc.:** Settlement (i) reduced \$543 million of asserted customer and unsecured claims to an allowed customer claim of \$59 million and an unsecured creditor claim of \$457 million, and (ii) provided for the return of \$173 million in assets to the LBI Estate.
- **Lehman Hong Kong Affiliates:** Settlement (i) reduced \$405 million of asserted customer and unsecured claims to an allowed unsecured general creditor claim of \$233 million, and (ii) provided for the return of \$71 million to the LBI Estate.

# Misdirected Wires

**The Trustee received requests for the return of funds misdirected to LBI bank accounts. In total, the Trustee returned over 950 misdirected wires with an aggregate value of \$617 million.**

**The Court-approved procedures implemented in April 2010 allowed for increased efficiency and reduced costs to the estate in administering the misdirected funds return process. The procedures included:**

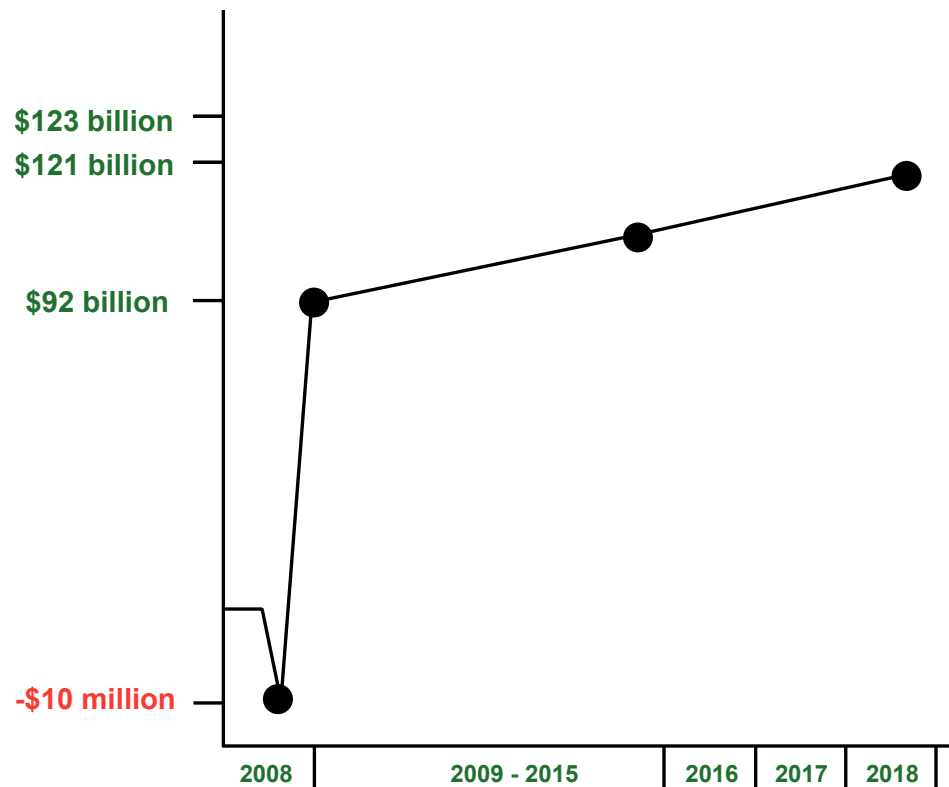
- Returning transfers of misdirected funds of \$250,000 or less without the need for obtaining further court approval.
- Surcharging new misdirected funds claims a processing fee equal to one percent (1%) of the return amount, up to a maximum surcharge of \$5,000 per return, in order to incentivize customers to update their bank account information.
- Disallowing and expunging misdirected funds claims in which the party requesting a return fails to provide information or execute required documentation within sixty days of a final written notice by the Trustee requesting such information or documentation.

## **V. Marshalling Assets**

# Marshalling Assets Overview

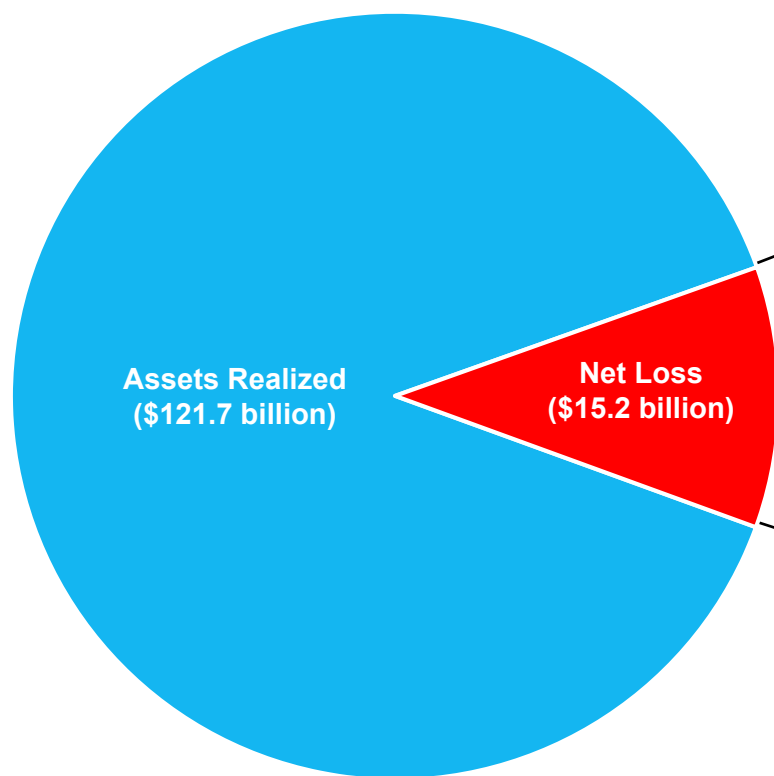
- The administration of the LBI Estate required the Trustee to marshal every single dollar available to him within the estate. On the filing date, LBI had had no liquid assets and required an initial **\$10 million** advance from SIPC, which was later paid back in full.
- As a result of the Trustee's marshalling of assets, the Trustee has administered approximately **\$123 billion**, repaid the SIPC advance long ago, realized the full value of customer property, and realized a substantial portion of the book value of LBI's assets despite losses on the Barclays transaction, billions of dollars of overvalued assets, and limited realization of receivables from Lehman affiliates.

## LBI Assets Administered Over Time



# Realization Report as of December 31, 2014

## To Be Updated upon Closure of Estate



The Realization Report presents information regarding the assets realized versus their booked value and explains why unsecured losses have arisen.

Assets (in millions)	Net Realized Versus Filing Date*
Securities on Hand	\$981
Proprietary Cash Book Entries	(\$150)
Receivables	\$95
Trade Unwind/Close Outs	(\$958)
Barclays Repurchase Agreement	(\$4,500)
Barclays Disputed Assets	(\$4,686)
Clearing Bank Collateral Liquidations	(1,895)
Due from Affiliates (including RACERS)	(\$5,961)
Equity Value of Subsidiaries/PIK Note	(\$1,700)
Goodwill, Fixed Assets, and Other	(\$780)
Post-Petition Income	\$2,150
Excess Customer Property	\$2,201
<b>TOTAL:</b>	<b>(\$15,204)</b>

\*Figures are as of December 31, 2014. Further information available in the Trustee's Preliminary Realization Report as of December 31, 2014 (ECF No. 11363).



# Realization Report as of December 31, 2014

## To Be Updated upon Closure of Estate

### Three principal reasons account for a substantial portion of the **\$15.2 billion** loss to the general estate:

- **Barclays Transaction:** This emergency transaction negotiated in the days and hours before the liquidation was undertaken in some of the most dire circumstances of our nation's financial history. Although the transaction granted important benefits at a time of great uncertainty, it is unquestionable that the terms of agreement had a negative impact on the LBI general estate—such as the transfer of nearly **\$8 billion** to Barclays that would have been available to general creditors.
- **Overbooked Assets:** LBI's marks for assets (including securities pledged as collateral and securities due from Lehman affiliates) were booked at values in excess of their realizable, market position. These losses from book values were exacerbated by forced liquidation of firm positions during the historically turbulent market of late 2008 when counterparties availed themselves of the Safe Harbor provisions of the Bankruptcy Code.
- **Affiliate Investments:** Prior to the bankruptcy, LBI was a hub among the 2,600 affiliates of the worldwide Lehman enterprise. With nearly all of these affiliates in bankruptcy or similar proceedings around the world, the realized value of investments in affiliates and affiliate receivables is substantially less than book value. At the same time, claims from affiliates, both for customer and general unsecured status, have proved to be far in excess of the anticipated book value as of the Filing Date.

# Marshalling Assets

## Trustee's Unwind Process

**The Trustee's single largest recovery for the estate is the value derived from unwinding certain financial products transactions between LBI and other broker-dealers, financial institutions, and other parties.**

- These transactions included foreign exchange derivatives, repurchase agreements, securities lending agreements, and TBAs ("to be announced" trades on mortgage related securities).

**The Bankruptcy Court's approval of the Trustee's procedures to reduce to cash and recover amounts due from financial products and other trading counterparties was instrumental to his success. The unwind process ultimately resulted in the recovery of \$4.8 billion to the estate.**

- Pursuant to the procedures, resolution of financial products closeouts and other trading counterparty receivables in amounts of \$3 million or more were submitted to the Court for approval as part of a streamlined process.
- For transactions valued at under \$3 million dollars, the procedures allowed the Trustee to utilize his discretion to consensually resolve such transactions without the need for further Court approval.

# Marshalling Assets

## Other Significant Recoveries

### The Trustee's marshalling efforts resulted in other substantial asset recoveries:

- **DTCC:** Negotiated the return of over **\$2.5 billion** in the wind-down and close-out of LBI's accounts at the DTCC and the collection of post-petition accruals on securities
- **Lehman Affiliate Recoveries:** Recoveries of over **\$600 million** from former Lehman affiliates in allowed claims and settlements
- **JPMorgan Chase:** Obtained a settlement resulting in recovery of **\$860 million**
- **Citibank:** Obtained a settlement resulting in recovery of **\$360 million**
- **RBS:** Obtained a settlement resulting in recovery of **\$215 million**
- **UBS:** Obtained a Court order compelling turnover of **\$23 million**
- **Customer Receivables:** Recovered **\$54 million** of open and unsettled customer receivables
- **Foreign Affiliates Auction:** Obtained Court approval to conduct an open auction of certain affiliate claims and, following a five-week auction in which three interested parties participated, sold the claims for an aggregate price of **\$5.5 million**.
- **Class Action Recoveries:** Filed, on behalf of the LBI estate, over 220 claims in securities class actions and recovered over **\$33 million** at minimal cost over the past eight years
- **DTC Settlement:** Obtained a settlement resulting in the return of **\$1.45 million** of LBI funds and resolution of all remaining DTC claims.
- **Samsung Settlement:** Negotiated the return of approximately \$8.9 million of LBI's assets held by Samsung Futures Inc. in South Korea, of which \$4.8 million was paid to Barclays pursuant to previous Court orders. The remaining **\$4.1 million** benefitted the LBI estate.

# Marshalling Assets

## Securities Liquidations and Sales

**Consistent with his goal to maximize the value of the LBI Estate, the Trustee implemented a strategy to liquidate the estate assets that were not set aside for customers to generate cash to satisfy creditor claims.**

- **Liquid Securities Sales:** The Trustee retained Blackrock to assist with the sale of relatively liquid securities. Blackrock executed over **9,000** trades of **4,200** unique CUSIPs, resulting in a sale totaling more than **\$7 billion**.
- **Illiquid Securities Sales:** The Trustee retained Miller Buckfire to assist with the sale of less liquid or illiquid securities. Through a series of 11 public auctions, Miller Buckfire sold or disposed of **2,274** securities resulting in settled cash proceeds of **\$437 million**.
- **Other Sales:** The Trustee's professionals have also sold other assets to assist the funding of customer and general estate distributions, including:
  - The sale of LBI's interest in Navigator Holdings Ltd. for **\$110 million**
  - The sale of LBI's interest in certain Invicta Notes for **\$57 million**
  - The sale of LBI's allowed claim against Lehman Brothers Europe Limited for **£35 million**

# Marshalling Assets

## Antitrust Class Action Litigations

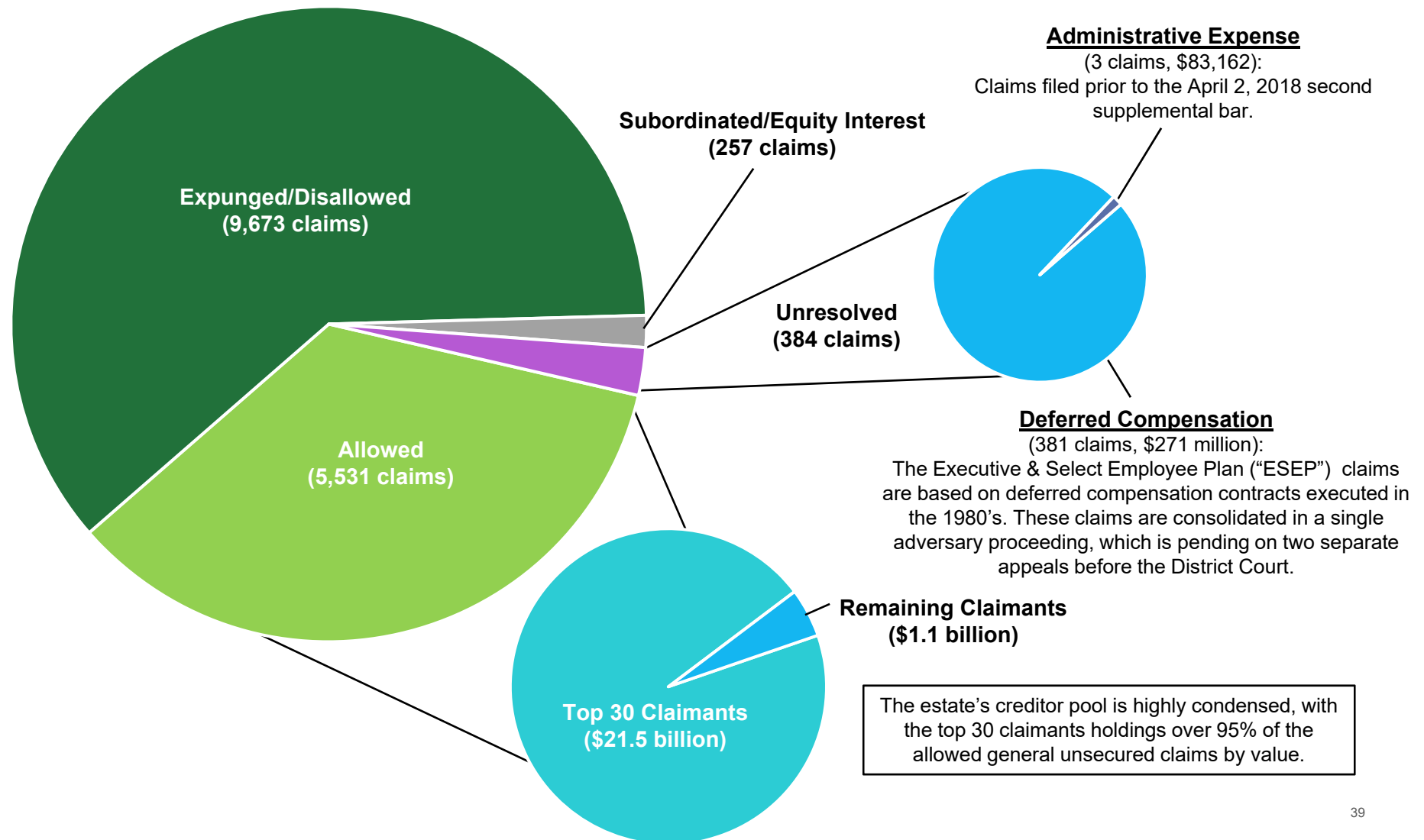
**The Trustee has submitted, or plans to submit, proofs of claims to participate in settlement funds arising from various antitrust litigation as follows:**

LITIGATION	SETTLING DEFENDANT(S)	CLAIM SUBMISSION DEADLINE	SETTLEMENT FUND
U.S. Dollar LIBOR Settlement	1 of 19 Defendants	3/29/2018	\$130 million
	2 of 19 Defendants	12/20/2018	\$340 million
Foreign Exchange Benchmark Rates Antitrust Litigation	15 of 16 Defendants	5/16/2018	\$2.3 billion
ISDAfix Antitrust Litigation	10 of 15 Defendants	7/16/2018	\$408 million
	5 of 15 Defendants	12/23/2018	\$96 million
Euribor Settlement	3 of 11 Defendants	8/1/2018	\$309 million
Euroyen Settlement	2 of 24 Defendants	9/25/2018	\$30 million

\*The Trustee does not estimate the expected distribution from these antitrust class action litigations because recoveries are contingent, unliquidated, and are therefore speculative.

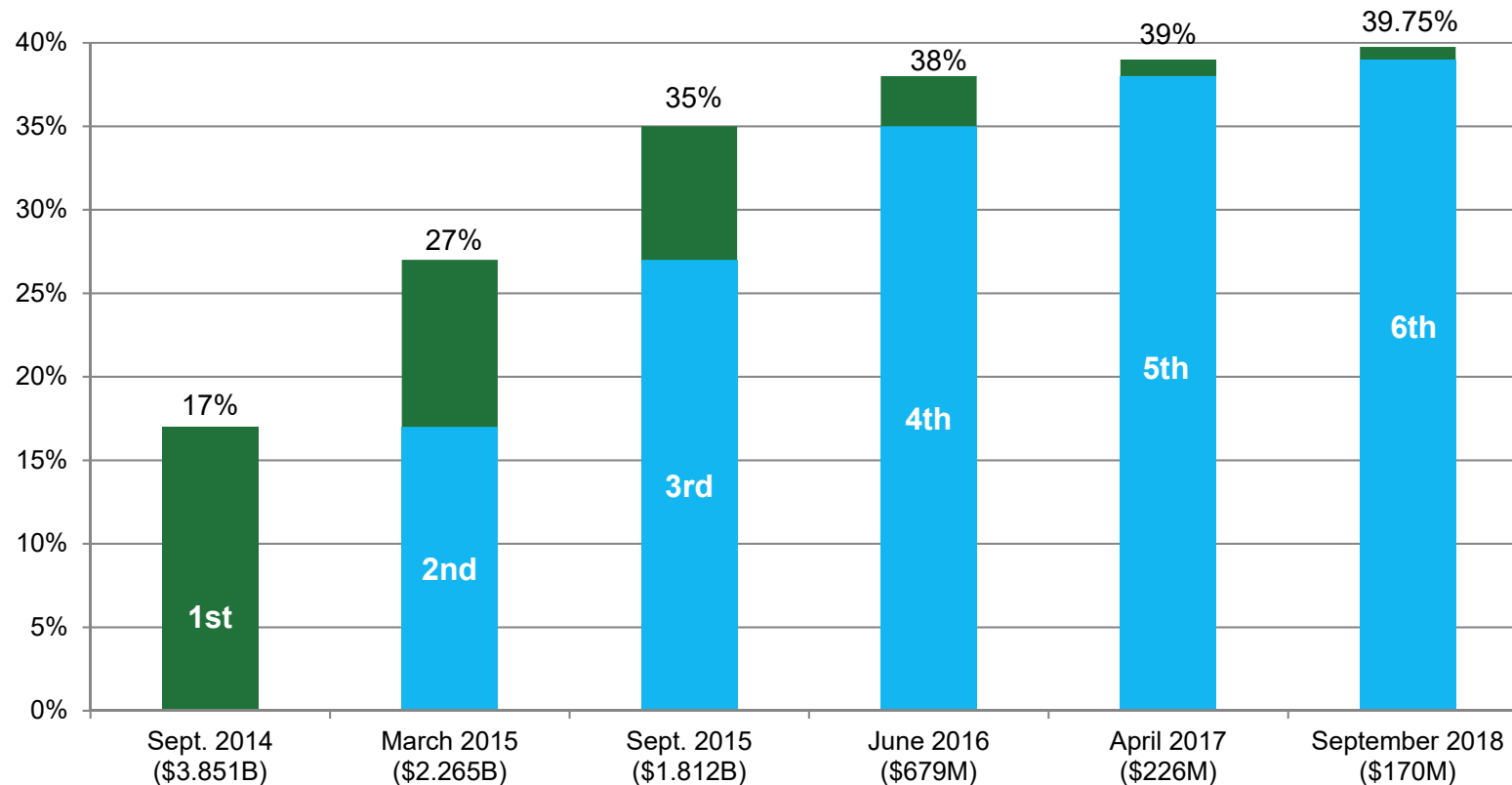
## **VI. General Estate**

# General Estate: Claim Resolution Substantially Complete



# General Estate: Distributions Overview

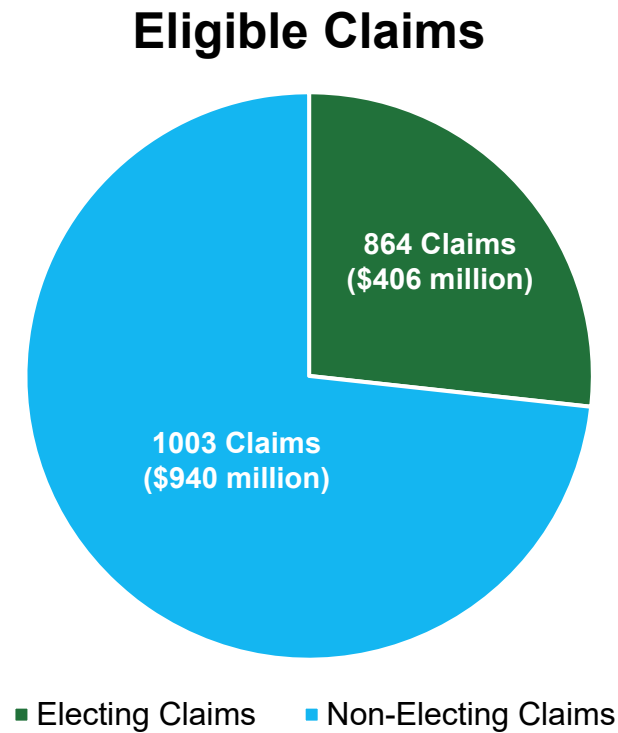
- The Trustee has made more than **\$9.3 billion** in distributions to general estate creditors, including a \$256 million distribution in July 2014 to Secured, Administrative, and Priority claim holders.
- Future general unsecured creditor distributions are principally contingent on the outcome of the sole remaining ESEP litigation and future recoveries from antitrust and securities class action litigations, which may be material.





# General Estate: Accelerated Final Distribution Election

- The Accelerated Final Distribution Election is an innovative process designed by the Trustee to facilitate continued efficient administration of the estate and prepare for its imminent closure. The process achieves these goals by aggregating hundreds of general unsecured claims under a single aggregate claim holder through a “cash out” process.
- To obtain a market-driven rate for the Accelerated Final Distribution Election, the Trustee held an auction in which five interested entities submitted competitive bids ranging from 1.27% to 1.48%.
- Over 860 claims, comprising 46% of the eligible claimant population, elected to participate in the process, and each received a final distribution equal to 1.48% and a total distribution of 41.23%.
- Through this process, over \$6 million will be distributed to LBI’s general unsecured creditors as an accelerated final distribution.



# General Estate: Balance Sheet as of August 31, 2018

## Lehman Brothers Inc., in Liquidation Provisional Liquidation Balance Sheet as of August 31, 2018

### *In Millions*

#### **Assets**

Cash and Cash Equivalents	\$543
Securities	\$0
Total Assets	<u>\$543</u>

#### **Liabilities**

##### General Creditor Claims:

Secured*	\$256
Priority*	\$6
Administrative*	\$1
Unsecured*	\$13,812
Administrative Expense Reserve	\$101
Total Liabilities	<u>\$14,176</u>

\*Net of amounts distributed. For example, the \$13.812 billion of unsecured liabilities is net of the \$8.837 billion distributed to general unsecured claimants as of August 31, 2018. The total (gross) general unsecured claim liabilities were \$22.645 billion as of August 31, 2018.

The Trustee and his professionals have prepared this Provisional Liquidation Balance Sheet based on the information available to the Trustee at this time; however, such information may be incomplete and may be materially deficient. The Provisional Liquidation Balance Sheet is not audited and is not meant to be relied upon as a complete description of LBI, its business, condition (financial or otherwise), results of operations, prospects, assets, or liabilities. This Provisional Liquidation Balance Sheet should be read in conjunction with the June 30, 2018 Liquidation Balance Sheet (ECF No. 14652) and previous Interim Reports filed with the Bankruptcy Court.

## VII. Legal Precedents

# Key Legal Precedents Established for Future SIPA Liquidations

## “Repo” Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (JMP), 492 B.R. 379 (Bankr. S.D.N.Y. 2013), *aff’d*, 506 B.R. 346 (S.D.N.Y. 2014), *aff’d*, *CarVal UK Ltd. v. Giddens (In re Lehman Bros. Inc.)*, 791 F.3d 277 (2d Cir. 2015), *cert. denied*, 136 S. Ct. 1158 (2015).

- The Bankruptcy Court affirmed the Trustee’s determination that claimants seeking to recover lost profits on repurchase agreements entered into with LBI were not “customers” under SIPA, finding that there was no “entrustment” of property to LBI, as required for a customer relationship under guiding case law. The District Court and the Second Circuit affirmed the Bankruptcy Court.

## “TBA” Trade Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (JMP), 462 B.R. 53 (Bankr. S.D.N.Y. Dec. 8, 2011)

- The Bankruptcy Court held that claims for contract damages based on the termination of certain “to be announced” contracts on a delivery-versus-payment basis or receipt-versus-payment basis did not fit within the narrow definition of “customer” prescribed by SIPA, and the claimants had not entrusted any property to LBI. Accordingly, the TBA Trade Claims were denied customer treatment.

## “Soft Dollar” Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (JMP), 474 B.R. 139 (Bankr. S.D.N.Y. July 10, 2012)

- The Bankruptcy Court held that money managers’ claims for soft dollar commission credit balances were not entitled to customer treatment because “the balances in the Soft Dollar Accounts were held exclusively for the purpose of obtaining certain brokerage and research services” and there was an “absence of intent to purchase ‘securities’ as defined by SIPA.”

# Key Legal Precedents Established for Future SIPA Liquidations

## “FirstBank” Claim

*In re Lehman Brothers Inc.*, No. 08-01420 (SCC) (Bankr. S.D.N.Y. Nov. 23, 2015), ECF No. 13085, *aff’d*, *FirstBank Puerto Rico v. Giddens (In re Lehman Bros. Inc.)*, 562 B.R. 234 (S.D.N.Y. 2016), *aff’d*, 689 F. App’x 14 (2d Cir. 2017) (summary order), *reh’g en banc denied*, No. 16-2547 (2d Cir. June 20, 2017)

- The Trustee denied FirstBank Puerto Rico’s customer claim for collateral held by LBI pursuant to interest rate swap agreements as duplicative of claims filed by the LBI affiliate, on whose behalf LBI was holding the collateral. The Bankruptcy Court held that (1) the claimant was collaterally estopped from pursuing the claim, (2) the claimant was not a “customer” of LBI within the meaning of SIPA, and (3) that LBI was not holding any of the collateral as of the petition date. The District Court and Second Circuit affirmed.

## “Short Valuation” Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (JMP), 433 B.R. 127 (Bankr. S.D.N.Y. 2010)

- The claimant, relying on § 562(a) of the Bankruptcy Code, argued that damages for rejecting its securities contract should be measured as of the earlier of the date of rejection or the date of termination. The Trustee, relying on SIPA, argued that the claimant was only entitled to the net equity in its account as of the petition date. The Bankruptcy Court determined that a financial participant’s right to liquidate, terminate, or accelerate its securities contracts or master netting agreements could not inhibit “the core determination of net equity,” which is determined as of the petition date.

# Key Legal Precedents Established for Future SIPA Liquidations

## “ACATS” Claims

*General Ore International Corp. Ltd. v. Giddens (In re Lehman Brothers Inc.)*, No. 17-cv-03762-WHP; *Neu v. Giddens (In re Lehman Bros. Inc.)*, No. 17-cv-03785-WHP, 2018 WL 1441407 (S.D.N.Y. Mar. 22, 2018)

- Claimants sought to recover the lost value of their securities based on the alleged failure of LBI to complete the transfer of their accounts through the Automated Customer Account Transfer Services. The Bankruptcy Court held that it would be inconsistent with SIPA to permit the claimants to recover market losses for a breach of duty, when the claimants had received the full net equity of their accounts through the Trustee’s bulk transfer under SIPA, thereby satisfying any duties of LBI. The District Court affirmed the Bankruptcy Court’s decision. Significantly, the case distinguishes between the broker-dealer’s failure to execute a trade order prior to liquidating and the failure to transfer an account.

## “Late-Filed” Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (JMP), 493 B.R. 437 (Bankr. S.D.N.Y. July 11, 2013)

- The Bankruptcy Court granted the Trustee’s objection to claims filed after the June 1, 2009 bar date, holding that SIPA mandates a strict requirement that all claims be filed within six months after the date of commencement of the case. Replying on SIPA’s legislative history, the Court held that this “reflects Congress’s response to the policies underlying the SIPA statutory scheme—namely, ensuring the systematic integrity of the securities industry, restoring investor confidence, and upgrading the financial responsibility requirements for registered brokers and dealers.”

# Key Legal Precedents Established for Future SIPA Liquidations

## “Transferee Bonus” Claims

*In re Lehman Brothers Inc.*, No. 08-01420 (SCC), 541 B.R. 45 (Bankr. S.D.N.Y. October 8, 2015), *affirmed in part and reversed in part*, No. 15 Civ. 8903, 554 B.R. 626 (S.D.N.Y. July 6, 2016), *affirmed in part and reversed in part*, No. 16-2737, 703 F. App'x 18 (2d Cir. July 27, 2017)

- Certain former LBI employees asserted claims for 2008 bonuses, although Barclays ultimately paid the entirety of each bonus after these employees transferred to Barclays as part of the Barclays Transaction. The Bankruptcy Court granted the Trustee's objection except with respect to a small portion of one of the bonuses, which the Court found to be outside the scope of the Barclays Transaction and therefore pursuable by the claimant. The Second Circuit affirmed the Bankruptcy Court's decision in its entirety.

## “Equity Award/RSU” Claims

*In re Lehman Bros.*, No. 08-01420 (SCC) (Bank. S.D.N.Y. Feb. 10, 2015), ECF No. 11272, *aff'd* *Acerra v. Giddens (In re Lehman Brothers Inc.)*, No. 15-cv-01819 (AT) (S.D.N.Y. Sept. 29, 2016), ECF No. 23, *aff'd* No. 16-3666, 716 F. App'x 56 (2d Cir. Jan. 25, 2018)

- Certain former LBI employees asserted claims to recover compensation that LBI had granted in the form of restricted stock units, which converted into common stock in LBI's parent company (LBHI) after a five-year holding period. The Bankruptcy Court granted the Trustee's objection seeking to reclassify the claims to equity interest and subordinate them. The District Court and Second Circuit affirmed, reasoning that the claimants took on a shareholder's risk and return expectations

# Key Legal Precedents Established for Future SIPA Liquidations

## “Triangular Setoff” Claims

*In re Lehman Bros. Inc.*, No. 08-01420 (JMP), 458 B.R. 134 (Bankr. S.D.N.Y. 2011)

- The Trustee challenged the validity of the triangular setoff scheme contained in a swap agreement, arguing that the scheme violated the requirement for mutuality articulated by Bankruptcy Code § 553(a). The Bankruptcy Court held that “the text of section 553 is not limited to common-law setoff and by its plain wording applies whenever a creditor seeks to exercise any purported setoff right—including one created by contract—in a case under the Bankruptcy Code.” Judge Sontchi of the District of Delaware Bankruptcy Court adopted the rationale of this case in *Sass v. Barclays Bank PLC (In re Am. Home Mortg., Holdings, Inc.)*, 501 B.R. 44 (Bankr. D. Del. 2013).

## “Underwriter” Claims

*ANZ Sec., Inc. v. Giddens (In re Lehman Bros. Inc.)*, 808 F.3d 942 (2d Cir. 2015), *aff’g In re Lehman Brothers Inc.*, 519 B.R. 434 (S.D.N.Y. 2014)

- “Junior Underwriters” asserted claims for contribution and reimbursement against LBI as lead underwriter for unsecured notes issued by LBHI. The Junior Underwriters argued that their claims should not be subordinated pursuant to Bankruptcy Code § 510(b). The Bankruptcy Court, the District Court and the Second Circuit rejected the Junior Underwriters’ argument. The Second Circuit held that § 510(b) subordinates claims arising from securities of a debtor’s affiliate to “all claims or interests senior or equal to claims in the bankruptcy proceeding that are of the same type as the underlying securities (generally, secured debt, unsecured debt, common stock, etc.).” The Ninth Circuit relied heavily on ANZ Securities in its recent *Del Biaggio* decision.



# Key Legal Precedents Established for Future SIPA Liquidations

## Trustee's Investigative Powers

*In re Lehman Bros. Inc.*, No. 08-01420 (JMP) (Bankr. S.D.N.Y. Jan. 15, 2009), ECF No. 561

- On January 15, 2009, the Bankruptcy Court issued its order authorizing the Trustee to issue subpoenas for the production of documents and the examination of current and former officers, directors, employees, and affiliates of LBI, as well as LBI's lenders, investors, and other financial transaction counterparties. "This is going to be a clean unconditional order. The trustee will get the very same [subpoena] power that was granted to the SIPA trustee in the Madoff case. He's entitled to it. He has a statutory mandate to fulfill and he's entitled to do that." (Jan. 15, 2009 Hr'g Tr. 135:22-136:1.)

## Account Transfers

*In re Lehman Bros. Inc.*, No. 08-01420 (JMP) (Bankr. S.D.N.Y. Dec. 14, 2009), ECF No. 2338

- On December 14, 2009, the Bankruptcy Court entered an order authorizing the Trustee to transfer the contents of certain customer accounts on to other broker-dealers. "[I]t is simply a natural aspect of the statute that governs a SIPA liquidation that bulk transfers of accounts can take place for the benefit of customers at the same time that there may be some potential residual damage." (Dec. 14, 2009 Hr'g Tr. 41:2-6.)

## Allocation Order

*In re Lehman Bros. Inc.*, No. 08-01420 (JMP) (Bankr. S.D.N.Y. Apr. 16, 2013), ECF No. 6023

- On April 16, 2013, the Bankruptcy Court approved the Trustee's Second Allocation Motion, seeking the Court's authority to allocate the securities, cash, or cash equivalents of "Core Customers" to the fund of customer property and to satisfy allowed customer claims with in-kind securities or through cash-in-lieu of securities to the extent that securities were unavailable. "The allocation motion carries forward SIPA's principals of distribution of property on a pro rata fashion and with a hundred percent distribution. That truly is a significant and applaudable achievement." (Apr. 16, 2013 Hr'g Tr. 30:11-14.)

## **VIII. Transparency**

# Transparency

**From the moment of appointment, the Trustee made clear that the Estate would speak only to the Court, for the benefit of complete transparency to all stakeholders, including:**

- Quarterly balance sheets; eighteen semi-annual interim reports; and annual State of the Estate presentations;
- Countless meetings with customer and creditor groups; and
- Daily updates to the Trustee's website and maintenance of a dedicated call center.

# Claimant Outreach

**Throughout the liquidation, the Trustee has maintained channels of communication with customers, creditors, and the public. The Trustee's dedicated call center alone has responded to over 50,000 unique inquiries from interested parties.**

- The Trustee's professionals continue to assist creditors and the public with inquiries pertaining to claims resolution, distribution history, and related liquidation matters.
- SIPC has worked closely with the Trustee's professionals to assist with claimant outreach.
- Transparency in this proceeding remains one of the Trustee's top priorities.

# Congressional and Regulatory Outreach

- **Updates and Briefings:** The Trustee and his professionals, in coordination with SIPC, regularly updated various U.S. and international policy makers and regulators on the status of the liquidation and provided recommendations to avoid future broker-dealer failures including regular updates to, and meetings with, Congressional Committees, the Federal Reserve Bank of New York, FINRA, Treasury, the SEC, the CFTC, the FSB, and the FSA/Bank of England.
- **Information Request:** Over the course of the liquidation, the Trustee has made a total of over 1,080 document productions in response to approximately 1,937 governmental and civil litigation requests.



## **IX. Substantial Completion**

# Substantial Completion

**While the LBI liquidation has now entered a phase of substantial completion, the proceeding still remains a “mega-case”:**

- Over \$544 million assets on hand, subject to reserves and internal controls
- 381 claims subject to a single adversary proceeding, currently pending on two separate appeals before the District Court; the Trustee maintains reserves of approximately \$265 million for these disputed claims
- The Trustee has submitted claims to participate in settlement funds arising from four antitrust litigations arising from allegations of misconduct by financial institutions in the foreign exchange market and the collusive manipulation of several financial industry benchmarks and instruments. The Trustee will be submitting a claim in a fifth litigation before the end of September.
- Continued subpoena responses and advisory updates to regulators and legislators
- Maintenance of systems, databases and depositories containing hundreds of terabytes of data and information, and tens of thousands of paper documents
- The effectuation of further and final distributions to general unsecured creditors pending resolution of final remaining claims litigation

# Closure of the Estate

**The Trustee is committed to closing the estate as promptly as possible. Closure of the estate is largely dependent upon the courts' calendars for appeals.**

**At the appropriate time, the Trustee will close out the LBI proceeding by taking the following actions:**

- Disposing of residual assets and pursuing all other avenues of recovery, including antitrust and securities class action claims.
- Obtaining approval of final distribution motion and effectuating final distribution.
- Filing a final Realization Report documenting the Trustee's success marshalling assets.
- Completing data abandonment program and arranging for post-closing retention of certain documents and data required to be maintained under applicable laws and SEC and SIPC guidelines.
- Closing remaining bank accounts and filing final tax returns.
- Moving to discharge the Trustee and closing the estate.



## **X. SIPC's Statutory Role**

# SIPC Oversight

## **SIPC Oversees the Liquidation Proceeding:**

- Through regular and periodic meetings, preparation of various forms, and otherwise, the Trustee is in virtually constant contact with SIPC.
- SIPC personnel routinely meet with the Trustee and his counsel and staff to review the status of the liquidation and work on discrete projects.
- SIPC reviews all bills and expenses of the liquidation and provides its recommendation to the Court.

# SIPC Reporting

## **SIPC reports regularly to the Securities and Exchange Commission, including:**

- SIPA § 78ggg(c) – Examinations and Reports – The SEC oversees SIPC, through examination, inspections, and otherwise.
- As part of that process, “SIPC shall submit to the Commission a written report relative to the conduct of its business ....”
- “The Commission shall transmit such report to the President and the Congress with such comment thereon as the Commission may deem appropriate.”

## **SIPC reports regularly to Congress, including:**

- U.S. Senate Committee on Banking, Housing and Urban Affairs
- U.S. House Financial Services Committee

# SIPC Presentations Worldwide

**SIPC has made presentations to regulators, industry groups, and other sovereign customer protection corporations around the world, including:**

- Washington, DC
- Chicago
- Cleveland
- Cape Town
- Luxembourg
- Rio De Janeiro
- Lima
- Budapest
- New York
- Toronto
- Montreal
- Beijing
- Rome
- Shanghai
- Kingston
- Belgrade

# Rule Changes

- Based on the events involving Lehman Brothers, SIPC amended its Rules Relating to Satisfaction of Customer Claims for Standardized Options, 17 C.F.R. § 300.400, known as the SIPC Series 400 Rules.
- Rule 400(b) was amended to provide the Trustee with discretion to determine whether, with SIPC's consent, to liquidate, or cause to be liquidated, Standardized Option positions held for the accounts of customers.
- Pursuant to section 205 of Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act, SIPC and the FDIC worked together to develop rules intended to provide a more efficient liquidation process for large broker-dealers when assets are not transferred to a bridge financial organization created by the FDIC.

## **XI. Trustee's Recommendations**

# Recommendations: SIPC Modernization Task Force

The Trustee served on the SIPC Modernization Task Force along with several other investor advocates, regulatory specialists and academic experts. The Task Force issued a report in February 2012 that included recommendations on how to amend and improve SIPA based on lessons learned from the Lehman liquidation and other recent SIPA cases.

The Trustee highlights three of those recommendations:

1. **Increasing SIPC's maximum coverage from \$500,000 to \$1.3 million.** Future coverage limits should also be tied to inflation. This would immediately and significantly increase the protection for customers, especially those who are not large or professional investors.
2. **Eliminating the distinction between claims for cash and claims for securities.** This would resolve potential disparate treatment of customers and increase the amount of customer protection available.
3. **Expanding the borrowing and guarantee authority available to SIPC trustees or other liquidators.** The SIPC fund has met the demands of all previous SIPA liquidations. However, the Lehman liquidation demonstrated that just one failure of a SIPC member broker-dealer could require at least the temporary availability of much more substantial sums. The ability to quickly and efficiently return customer property in the early days of a liquidation would be enhanced if the borrowing limit were increased.

# Trustee's Preliminary Investigation Report: Investigation

**Pursuant to SIPA § 78fff-1(d)(1), the Trustee conducted a detailed investigation into the events and transactions that precipitated the collapse of Lehman. During the course of his investigation, the Trustee and his professionals undertook the following actions:**

- Made document requests (both formal and informal) to dozens of parties that had information relating to LBI's collapse and received productions amounting to hundreds of thousands of documents in response.
  - Issued 15 subpoenas pursuant to this Court's January 15, 2009 order granting certain investigative powers to the Trustee.
- Reviewed hundreds of thousands of pages of internal LBI emails, including those of numerous high-level officers during the critical months leading up to the filing date, LBI account records, contractual agreements, and other documents from LBI's records, as well as innumerable quantities of electronic data from LBI's information systems.
- Conducted nearly 300 interviews of former LBI personnel with knowledge relevant to the Trustee's investigation.
- Investigated JPMorgan Chase's seizure of certain assets by reviewing over one million pages of documents and more than 29,000 spreadsheets and other files produced by JPMorgan Chase regarding JPMorgan Chase's relationship with LBI and its role as LBI's clearing bank.
- Reviewed the factual details and legal basis for DTCC's activities beginning during the week of September 22, 2007, when DTCC purported to invoke rules governing ceasing to act and/or winding-down of activities on behalf of LBI.
- Investigated the liquidation of LBI's proprietary options and futures positions at the CME Group, Inc. in the days prior to the commencement of the SIPA Proceeding.
- Investigated Citibank's claims of a right to offset a \$1 billion deposit made by LBI with Citibank against short balances totaling approximately \$1.26 billion for settlement of foreign exchange transactions through the Continuous Linked Settlement system. The balance of \$260 million is claimed as a right of offset against various LBI accounts at Citibank affiliates around the world.



# Trustee's Preliminary Investigation Report: Conclusions

**On August 25, 2010, the Trustee filed the *Trustee's Preliminary Investigation Report and Recommendations*, containing the findings of this investigation. Based on his investigation, the Trustee concluded that:**

- The regulatory scheme governing basic operations of LBI as a broker dealer and the regulators themselves functioned appropriately.
- LBI's internal compliance function largely served its purpose.
- LBI was generally in compliance with regulatory requirements and the financial responsibility and customer segregation rules specific to the operation of the broker-dealer.
- SIPA still worked to facilitate massive account transfers and otherwise protect LBI's customers.
- Most customer property was intact and accessible for satisfaction of customer claims or transfer to other brokers.

# Trustee's Preliminary Investigation Report: Recommendations

**Based on his investigation, the Trustee has made recommendations for reform including:**

- Broker-dealer pre-liquidation plans
- Pre-liquidation negotiations and provisions on mechanics of asset transfers
- Balancing clearing banks' and others' safe-harbor rights against the need for transparency
- Improvement of clearing agencies' emergency rules and operations
- Increasing SIPC's financial resources and borrowing authority
- Statutory reform to address issues related to Trustee's standing to assert claims for the recovery of customer property on behalf of former customers
- Recommendations for short-term reinstatement of automatic stay
- Rational rules for unwinding outstanding non-customer financial transactions
- Establishing protocol for affiliate meetings to resolve cross-border claims, and promote frequent meetings with other creditor groups and regulators

## Additional Information

- *Report of the Trustee's Investigation and Recommendations*, August 25, 2010, the authoritative analysis of the causes of LBI's collapse and lessons learned
- *Trustee's Preliminary Realization Report*, February 23, 2015, summarizes Estate administration and explains unsecured creditor losses
- [www.lehmantrustee.com](http://www.lehmantrustee.com) updated daily throughout the liquidation

**Hughes  
Hubbard  
& Reed**

