

**PROTOCOL OF THE LEHMAN BROTHERS INC. TRUSTEE  
REGARDING PRIME BROKERAGE ARRANGEMENTS<sup>1</sup>**

**Background**

- Under the Securities Investor Protection Act of 1970 (“SIPA”) and pursuant to the Asset Purchase Agreement, the Trustee is engaged in the transfer of customer accounts to the extent practicable. Under SIPA, in the absence of an account transfer, customers of a failed brokerage firm, as defined in SIPA, get back securities (such as stocks and bonds) that already are registered in their name or are in the process of being registered. After the return of customer name securities, the firm’s remaining customer assets are divided on a pro rata basis with funds shared in proportion to the size of claims. If sufficient funds are not available in the firm’s customer accounts to satisfy claims within these limits, the funds of the Securities Investor Protection Corporation (“SIPC”) may be used to supplement the distribution, up to a ceiling of \$500,000 per customer, including a maximum of \$100,000 for cash claims. Additional funds may be available to satisfy the remainder of customer claims after the cost of liquidating the brokerage firm and other considerations are taken into account.
  
- Under SIPA, customer claims are satisfied from the above sources on the basis of and to the extent of customers’ respective net equities on the “filing date” which is September 19, 2008 in this case. To the extent possible, customers’ net equity claims are satisfied in kind. A customer who is owed cash receives cash. A customer who is owed securities generally receives securities, although in certain circumstances, the customer may receive cash in an amount equal to the market value of the security on the filing date.
  
- In this proceeding the objective has been to transfer the accounts to the extent practicable, and the Trustee has developed the consensual protocols described below to enable the transfer of prime brokerage accounts in whole or in part. This practical approach to these accounts is consistent with the SIPA mandate and the order appointing the Trustee in this liquidation.
  
- It must be emphasized that the protocols envision a consensual process and discussion of individual accounts may permit some variation where the estate is not put at risk and the account holder agrees.

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1. THIS PROTOCOL SUPERSEDES, IN ALL RESPECTS, THE OCTOBER 6, 2008 PROTOCOL ISSUED BY THE TRUSTEE.

## Protocol

- **Forward settling, open, and failed transactions will be closed out, with an effective date of September 19, 2008, using a Bloomberg end of day price, or a commercially reasonable price from alternative sources.<sup>2</sup>**

- **To the extent an account owner also has an account at Lehman Brothers International Europe ( an “LBIE Account”), the Trustee has no jurisdiction over the LBIE Account and will not be able to transfer those assets held in the LBIE Account.**

### **I Fixed Income Prime Brokerage<sup>3</sup>**

#### **A Free Cash**

- Prime Brokerage accounts will be closed and available cash will be delivered as instructed.

#### **B Fully-Paid Securities**

- Prime Brokerage accounts will be closed and available securities will be delivered as instructed.
- A letter accepting the transfer will be required by the receiving broker-dealer with a medallion signature.

#### **C Repos and Reverse Repos (open and term), Outright Buy/Sell-Backs, and Fails**

- These transactions will be closed out as of September 19, 2008, using the Bloomberg end of day closing price or a commercially reasonable price from alternative sources.

#### **D TBA Positions**

- For eligible trades of the Mortgage Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corporation, accounts will be closed out as of September 19, 2008, using the Bloomberg end of day closing price, and when the MBSD closing price is provided, claims can be adjusted.
- For non-prime brokerage account owners, the previously released Securities Industry and Financial Market Association (“SIFMA”) protocols 08-01 and 08-02 will be used to determine claims value.

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2. As between a clearing agency and the Trustee, the clearing agency will close out pending transactions and positions in accordance with their rules and procedures and will provide an accounting to the Trustee.
  3. Prime brokerage accounts must provide appropriate wire or security delivery instructions to lbiprime@hugheshubbard.com. Appropriate representations that no “liens” exist with respect to third parties and other Lehman entities will also be required. This procedure contemplates that the account owner agrees to the reconciliation of its account under the process set forth herein. Account owners may decline to follow the protocol with regard to their account and instead file a claim in the regular claims process.

## **II Margin Lending Prime Brokerage<sup>4</sup>**

### **A Free Cash**

- Prime Brokerage accounts will be closed and available cash will be delivered as instructed.

### **B Fully-Paid Securities**

- Prime Brokerage accounts will be closed and available securities will be delivered as instructed.
- Note: fully-paid securities may reside in either the account owner's safe-keeping or margin account.
- A letter accepting the transfer will be required by the receiving broker-dealer with a medallion signature.

### **C Long Positions / Margin Debit Balance**

- To facilitate transfers, account owners will be requested to submit cash to an escrow bank, which will hold such cash on their behalf until such time as the account owner has confirmed free delivery to a designated broker-dealer. Upon confirmation of the delivery of the collateral, the cash will be released to the estate.
- A letter accepting the transfer will be required by the receiving broker-dealer with a medallion signature.

### **D Short Positions**

- Subject to the discussion with account owners, accounts will be closed out as of September 19, 2008, using the Bloomberg end of day closing price or a commercially reasonable price from alternative sources.
- Accounts will be closed out and other long available securities will be returned through a format similar to II.C.
- This closeout will be used to offset any margin debit with any excess or shortfall being a claim by or to the estate.

October 14, 2008.

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4. See footnote 3.