

Lehman Brothers unwinding

Banks warned over assets held by subsidiaries

PwC highlights need for local funds
Lenders fear loss of UK competitiveness

By Jennifer Hughes in London

International banks will have to hold more assets in their subsidiaries if they want to avoid a re-run of the chaos caused by the fall of Lehman Brothers, according to PwC, administrators for the collapsed bank's European operations.

The comments come as the UK's Financial Services Authority is pushing a series of contentious liquidity proposals that would involve UK subsidiaries doing just that. Banks have warned, however, that the rules would tie up capital and dent the UK's competitiveness if the regulator forges ahead without waiting for

other regulators to agree an international system.

Lehman Brothers' sudden collapse, particularly in Europe where it had massive cross-border trading operations, left global markets in disarray as leading banks, hedge funds and other investors struggled to work out their positions.

"You've just got to have some assets held locally that you can rely on," said Steven Pearson, one of the joint administrators for the bank's European operations. PwC yesterday disclosed its fees have reached more than £77m for the six months of work to date and that they are expected to continue at broadly the same pace.

The European operations have proved one of the most complex pieces of the global Lehman jigsaw because they were involved in a massive array of market operations. Its problems were further intensified by the company's

practice – common among multinationals – of sweeping all cash each day back to the US parent. In the case of Lehman Europe, the sweep had taken \$8bn out of the UK business the Friday before it collapsed, meaning the administrators didn't even have the funds to cover that week's payroll and had to seek an emergency loan from business contacts, a process Mr Pearson describes as "scary" given the importance of the bank to the financial system.

"We walked into this one with no one we could turn to. It wasn't a UK-regulated bank, there was no bail-out fund ready. Holding local liquidity plus having regulatory facilities would have made a lot of difference," he added.

The comments come as the administrators released their six-month progress report. More than \$12bn of client assets have been

returned so far but those are only the simplest cases and the return of further holdings is likely to take far longer. Clients and administrators are working to set up a standardised system for doing this.

Lehman Europe's position so far suggests its has almost \$17bn in "headroom" above its liabilities but the administrators warned yesterday this was worth just 1.3 per cent of the gross balance sheet.



Lehman Brothers staff leave London's Canary Wharf offices after the company was placed into administration

Getty Images

Digging for bank's cash goes on

News analysis

Lehman's European administrators warn that end is not in sight, writes Jennifer Hughes

Six months ago, Lehman Brothers' European administrators were struggling to keep the lights on and find the cash to cover the payroll.

Now PwC, which leads the operation, has racked up fees of more than £77m (\$114m) and is sitting on a cash pile of almost \$6bn in Lehman Europe's "house" account.

But it warns that the end of the process is still nowhere in sight.

When Lehman Brothers informed its subsidiaries it would no longer support them on September 15, it triggered a race to file for bankruptcy by those units and led to a testing of national bankruptcy laws and processes in a way that had never been envisioned.

Lehman's European operations have proved some of the hardest to sort because of its position as a key trader – it was responsible for more than 10 per cent of the trades on the London Stock Exchange on any given day, for example – and because of its close relation-

ship with hedge funds around the world.

The report produced yesterday covers six months of the administrators' work and puts the team ahead of where they expected to be at this point.

"The overarching achievement is that we've put in place a decisive framework for the run-off and understood in micro detail the issue of each aspect of the business," says Steven Pearson, one of the four joint administrators.

"At the outset, we didn't even know what the issues were. Now we've got a process in place."

The report states the gross book value of Lehman Europe's assets at \$628.6bn at the point it collapsed. Liabilities totalled \$611.8bn.

When adjusted for factors such as assets belonging to clients and trades with counterparties, this nets out to assets and liabilities of \$49.5bn and \$32.6bn, respectively.

In spite of the resulting \$16.9bn of net equity, or "headroom" in administrator-speak, between the assets and liabilities, the administrators have warned unsecured creditors are unlikely to see all their funds, given its tiny size compared with the gross balance sheet.

This does not mean, however, that creditors with preferential claims, such as

Lehman clients with assets trapped in the collapsed bank, are exactly happy.

The administrators ran into a storm of criticism early in the process for a lack of communication and the UK bankruptcy process was savaged for its seeming confusion compared with the well-oiled US machine.

However, as the picture has cleared, relations have improved.

Critically, the administrators are working to develop a scheme of arrangement that will divide investors into classes based on their

PwC, which leads the European operation, has racked up fees of more than \$114m

different interests, with the aim of agreeing a system to return assets.

A total of \$12.2bn has been returned so far, but this relates to only a handful of relatively simple cases.

There are believed to be about 2,000 clients. However, the administrators say less than 60 per cent of them have so far provided the detail needed to reconcile fully what Lehman holds and what it is meant to hold.

"If we can get this scheme

approved, it will demonstrate the flexibility of the UK legal environment. Here, we're not restricted by defined rules, but can design them to meet the circumstances as appropriate," says Mr Pearson, who is confident it will be agreed.

"The UK environment benefits from not having to seek court approval for every decision made. Coming out of this will be some solutions which are pretty groundbreaking – this is effectively designing a template that could be very quickly used in any other similar instances."

This ground-breaking work is not without its cost; more than £77m has been earned in fees by PwC so far and the work is expected to continue at about the same pace for the next few months at least.

Mr Pearson knows the fees will attract comment, but is comfortable about it.

"There's nothing in here that embarrasses us," he says, citing the complexities of the case and the resulting need for senior partners' input as a reason for the big number.

He says that typically it is not unusual to see a fee of 5 to 10 per cent of assets on any case. Lehman Europe is currently controlling some \$40bn-plus of assets.

www.ft.com/lehman

Shell eyes Chinese links in Iraq

OIL & GAS
Anglo-Dutch group in advanced talks
Tie-ups could help it win deals in China

By William MacNamara in London

Iraq has become an unlikely stage on which Royal Dutch Shell is pursuing its interest in China, as the Anglo-Dutch energy company indicated yesterday it might seek to partner Chinese companies to develop oil fields in Iraq.

In Beijing yesterday Jeron van der Veer, Shell's outgoing chief executive, responded to unsecured media reports that Shell was in advanced talks with PetroChina and Sinopec – two of China's biggest state-owned oil companies – to bid jointly for oil licences in Iraq.

Such a venture could help Shell win oil licences in China, which the company views as an important future market.

"We indeed have had discussions about bidding," Mr van der Veer said in Beijing, according to Reuters. "Chinese companies for certain are part of the bidding partnerships."

Shell, Sinopec, and 30

other global energy companies are separately bidding to develop huge oil and gas fields across Iraq, a tender process that is part of the postwar government's attempt almost to double oil output – and boost state revenues – over the next four years.

The winners of the first bid round will be announced this summer.

Shell said discussions with potential partners were at an early stage and would not comment on any details. An Iraqi joint venture between Shell and a state-owned Chinese oil company could be

advantageous to both sides.

Sinopec, Sinochem and China National Offshore Oil Corp – three Chinese oil companies bidding for an Iraq licence – lack Shell's expertise in the development of large-scale oil fields.

The companies are intent on expanding internationally, but their relatively late entry into the international oil business has prevented them from bidding for bigger projects, such as the Iraqi fields.

Shell, meanwhile, has stated its interest in entering China's fuel retail market and its refining industry.

The Chinese petrochemical sector continues to grow even as it shrinks in Shell's core markets of Europe and North America.

Shell has a fuel marketing joint venture in China with Sinopec. It also jointly operates the Changbei gas field in northwest China with PetroChina.

Media reports cited the Kirkuk oil field in northern Iraq as the site of a potential joint venture between Shell and either PetroChina or Sinopec.

While not officially bidding for a first-round oil licence, PetroChina is already established in Iraq, where it operates the Al Ahdab oil field.

Its contract there, signed as a production-sharing agreement under the government of Saddam Hussein, was recently renegotiated as a oil-service contract.

Iraq's oil ministry stated last month that it would sweeten the terms of the bidding round.

Foreign oil companies can now apply for up to a 75 per cent stake in new oil and gas projects.

Previously they were offered no more than a 49 per cent stake, with Iraqi companies holding a majority position.

www.ft.com/energysource
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Shell is considering joint bids for Iraqi oil licences

MaxPPP

Legal Notice

COURT ORDERED LIQUIDATION

By order dated 2nd April 2009, the Tribunal d'Arrondissement de et à Luxembourg Sixth Chamber, sitting as a commercial court, has ordered the dissolution and liquidation of **the investment company with variable capital in the form of a public limited company LUXALPHA SICAV**, whose registered office is at 33A, avenue John F. Kennedy, L-1855 Luxembourg, n° **B 98.874** of the Registre de Commerce et des Sociétés.

The same order has appointed Mrs. Christiane JUNCK, vice-president of the Tribunal d'Arrondissement de et à Luxembourg as supervisory judge and Mr. Alain RUKAVINA lawyer domiciled at Luxembourg and Mr. Paul LAPLUME company auditor, residing at Junglinster as Liquidators;

it states that the liquidators shall represent both the company and its investors and creditors and that they shall be vested with the widest powers for the purpose of attaining their objective, whether those powers are exercised in the Grand Duchy of Luxembourg or abroad;

it states that interest ceased to accrue on 2nd April 2009.

The order declares that Article 508 of the Commercial Code shall apply to any claims lodged after that date;

it orders the creditors to lodge their claim with the amount thereof with the Registry of the Tribunal d'Arrondissement [Commercial Court] of Luxembourg before 2nd July 2009;

it declares to be applicable the legal provisions concerning liquidation of insolvent companies, subject to the following derogating provisions:

the verification of claims shall be carried out by the liquidators progressively as the proofs of claim are lodged; they shall enter on the list of claims those which they consider admissible; each admissible claim shall be designated by the identity of the claimant, the amount and the basis of the claim, and whether it is privileged or unsecured; the liquidators shall in the same way draw up lists into which the disputed claims are entered, the liquidators shall submit a report to the supervising judge on their verification operations and shall periodically submit to him draft lists of admissible claims and disputed claims,

during the first ten days of the months of February, June and October, the lists of claims periodically declared admissible shall be lodged with the Registry of the Tribunal d'Arrondissement, Luxembourg, Sixth Chamber, where the creditors who have submitted claims, those who are entered into the balance sheet and the investors may inspect the same,

during that period, those same persons may lodge objections against the claims entered into the lists. Objections shall take the form of a declaration submitted to the Registry; a reference thereto shall be made by the Registrar on the list in question, in the margin of the entry of the claim objected to; the reference shall bear the date of the objection and the identity of the objector and, if appropriate, of the agent making the statement of objection; the objection must be repeated – failing which it shall be inadmissible – within three days by registered letter addressed to the liquidators; it must contain – failing which it shall be inadmissible – the precise identification of the objector, an address for service within the municipality of Luxembourg, proof of his standing and the pleas and documents relied on in support of the objection,

the admissibility and merits of the objection shall be verified on a summary basis by the liquidators,

after expiry of the period of ten days for lodging an objection, the claims declared admissible and not objected to shall be definitively admitted in the records signed by the liquidators and the supervising judge,

the liquidators shall duly inform the creditors whose lodged claims have been disputed, or have been the subject of an admissible objection which does not lack any merits, of the fact that their claim has been challenged or that there is an objection to it, by registered letter sent to the address of the person providing an address for service, or else to the address of the foreign agent, or else to the address indicated in the lodged claim, or else to their last known address,

if the creditors do not proceed to issue a summons within a period of 40 (forty) days as from the date of dispatch by post of the said registered letter, the lodged claim in question shall be regarded as definitively rejected,

the liquidators shall similarly inform objectors whose objection appears to them to be inadmissible or lacking any merits, of the fact that their objection has been challenged, by registered letter sent to the address for service given by them,

if the objectors fail to proceed to issue a summons within a period of 40 (forty) days as from the date of dispatch by post of the said registered letter, their objections shall be definitively regarded as non-existent and the claims shall be declared admitted,

a creditor who issues a summons against the liquidators and, in the case of an objection, also against the objector, and any objector who issues a summons against the creditor and the liquidators must pe emptorily indicate an address for service within the municipality of Luxembourg in the writ of summons; in the event of failure to maintain that address for service throughout the duration of the procedure or failure to notify a change of the elected a dress for service to the liquidators, all further information and all documents may be validly given to him or served at the Registry of the Tribunal d'Arrondissement, Luxembourg, sitting as a commercial court, Sixth Chamber, as provided for by Article 499(2) of the Commercial Code,

objections on which it is not possible to give an immediate decision shall be dealt with separately,

those which are not within the jurisdiction of the Tribunal d'Arrondissement, Luxembourg, sitting as a commercial court, shall be referred to the competent court,

no opposition shall be available against judgments giving a decision on challenges and objections,

creditors whose claims have been admitted shall be individually informed of that fact by ordinary letter from the liquidators,

The same order states that claims denominated in a currency other than the euro shall be converted into that currency at the rate of exchange ruling on the date of the liquidation judgment, as published by the European Central Bank, and payment of all admitted claims shall be made in euro;

it orders that seals are to be affixed at the registered office of the company and at all other places where they may be necessary, unless the inventory can be completed in a single day, in which case it shall be carried out without the prior affixing of seals;

it orders publication of the present judgment in its entirety in the Mémorial [Official Gazette] and of an excerpt thereof in the newspapers Luxemburger Wort, L'Echo de la Bourse, Börsen-Zeitung and the Financial Times;

it states that the present judgment shall be enforceable on a provisional basis;

it orders that the costs are to be borne by the investment company with variable capital in the form of public limited company LUXALPHA SICAV.

The entire order can be read at <http://www.justice.public.lu/>

The court-appointed liquidators
Paul LAPLUME
Alain RUKAVINA

Address of the liquidation:
LUXALPHA SICAV (en liquidation judiciaire)
B.P. 456
L-2016 LUXEMBOURG

THE FRENCH VERSION OF THE ENTIRE ORDER PREVAILS

JUDICIAL LIQUIDATION

By a judgment given on 2 April 2009, the Tribunal d'Arrondissement [District Court], Luxembourg, Sixth Chamber, sitting as a commercial court, declared the dissolution and ordered the liquidation of **the investment company with variable capital in the form of a public limited company HERALD(LUX)**, whose registered office is at 40, avenue Monterey, L 2163 Luxembourg, registered in the Luxembourg Commercial and Companies Register under number B 136.680.

The same judgment has appointed as supervising judge Mr Jean-Paul MEYERS, First Judge at the Tribunal d'Arrondissement, Luxembourg, and as liquidators Maître Ferdinand BURG, lawyer with right of audience before the Court, residing in Luxembourg, and Mr Carlo REDING, company auditor, residing in Luxembourg;

it states that the liquidators shall represent both the company and its investors and creditors and that they shall be vested with the widest powers for the purpose of attaining their objective, whether those powers are exercised in the Grand Duchy of Luxembourg or abroad;

it states that interest ceased to accrue on 2 April 2009.

The judgment has ordered the creditors to lodge their claim with the amount thereof at the Registry of the Tribunal de Commerce [Commercial Court] of the Tribunal d'Arrondissement, Luxembourg, before 2 July 2009.

The judgment declares that Article 508 of the Commercial Code shall apply to any claims lodged after that date;

it declares the legal provisions concerning liquidation of insolvent companies to be applicable, subject to the following derogating provisions:

the verification of claims shall be carried out by the liquidators progressively as the proofs of claim are lodged at the Registry; they shall enter on the list of claims those which they consider admissible; each admissible claim shall be designated by details of the identity of the claimant, the amount and the basis of the claim, and whether it is privileged or unsecured; the liquidators shall in the same way draw up lists on which the disputed claims are entered,

the liquidators shall submit a report to the supervising judge on their verification operations and shall periodically submit to him draft lists of admissible claims and disputed claims,

during the first ten days of the months of February, April and October, the lists of claims periodically declared admissible shall be lodged at the Registry of the Tribunal d'Arrondissement, Luxembourg, Sixth Chamber, where the creditors who have submitted claims, those who are entered on the balance sheet and the shareholders may inspect the same,

during that period, those same persons may lodge objections against the claims entered on the lists. Objections shall take the form of a declaration submitted to the Registry; a reference thereto shall be made by the Registrar on the list in question, in the margin of the entry of the claim objected to; the reference shall bear the date of the objection and the identity of the objector and, if appropriate, of the agent making the statement of objection; the objection must be repeated – failing which it shall be inadmissible – within three days by registered letter addressed to the liquidators; it must contain – failing which it shall be inadmissible – the precise identification of the objector, an address for service within the municipality of Luxembourg, proof of his standing and the pleas and documents relied on in support of the objection,

the admissibility and merits of the objection shall be verified on a summary basis by the liquidators,

after expiry of the period of ten days for lodging an objection, the claims declared admissible and not objected to shall be definitively admitted in the records signed by the liquidators and the supervising judge,

the liquidators shall duly inform the creditors whose lodged claims have been disputed, or have been the subject of an admissible objection which does not lack any foundation, of the fact that their claim has been challenged or that there is an objection to it, by registered letter sent to the address of the person providing an address for service, or else to the address of the foreign agent, or else to the address indicated in the lodged claim, or else to their last known address,

if the creditors do not proceed to issue a summons within a period of 40 (forty) days as from the date of dispatch by post of the said registered letter, the lodged claim in question shall be regarded as definitively rejected,

the liquidators shall similarly inform objectors whose objection appears to them to be inadmissible or lacking any basis, of the fact that their objection has been challenged, by registered letter sent to the address for service given by them,

if the objectors fail to proceed to issue a summons within a period of 40 (forty) days as from the date of dispatch by post of the said registered letter, their objections shall be definitively regarded as non-existent and the claims shall be declared admitted,

a creditor who issues a summons against the liquidators and, in the case of an objection, also against the objector, and any objector who issues a summons against the creditor and the liquidators must without fail indicate an address for service within the municipality of Luxembourg in the writ of summons; in the event of failure to maintain that address for service throughout the duration of the procedure or failure to notify a change of the elected address for service to the liquidators, all further information and all documents may be validly given to him or served at the Registry of the Tribunal d'Arrondissement, Luxembourg, sitting as a commercial court, Sixth Chamber, as provided for by Article 499(2) of the Commercial Code,

objections on which it is not possible to give an immediate decision shall be dealt with separately,

those which are not within the jurisdiction of the Tribunal d'Arrondissement, Luxembourg, sitting as a commercial court, shall be referred to the competent court,

no appeal shall be available against judgments giving a decision on challenges and objections,

creditors whose claims have been admitted shall be individually informed of that fact by ordinary letter from the liquidators.

The same judgment states that claims denominated in a currency other than the euro shall be converted into that currency at the rate of exchange ruling on the date of the liquidation judgment, as published by the European Central Bank, and payment of all admitted claims shall be made in euro;

it orders that seals are to be affixed at the registered office of the company and at all other places where they may be necessary, unless the inventory can be completed in a single day, in which case it shall be carried out without the prior affixing of seals;

it orders publication of the judgment in its entirety in the Mémorial [Official Gazette] and of an extract thereof in the newspapers Luxemburger Wort, L'Echo de la Bourse, Börsen-Zeitung and the Financial Times;

it states that the judgment shall be enforceable on a provisional basis;

it orders that the costs are to be borne by the investment company with variable capital in the form of a public limited company Herald(Lux).

The entire judgment is accessible at <http://www.justice.public.lu/>

The judicial liquidators
Carlo REDING
Ferdinand BURG

Liquidation address:
HERALD(LUX) (in judicial liquidation)
P.O. box 142
L- 2011 LUXEMBOURG

THE FRENCH VERSION PREVAILS