

Lehmans bankruptcy claims at market high - Gamma Finance

May 10 2013

In the same period, since September 2008, that the FTSE 100 has risen by 19.3%, the secondary market price of unsecured claims held against Lehman Brothers International Europe (LBIE) has risen to 20% above par (whilst the CAC 40 has declined 11.3%¹).

This could seem surprising given the domino effect that the collapse of Lehman Brothers had on global markets and where investors believed they would be in 2008, with claims against the collapsed institution trading for as much as 80% below par in the weeks after its collapse.

Investors seeking alternative sources of alpha in the market are increasingly looking to constrained assets with extended and sometimes unclear payment horizons to achieve this. As a consequence of the steady liquidation of Lehman Brothers focusing on maximising the value of assets, some Hedge Funds and Financial Institutions are now taking a longer term view on the pool of assets supporting certain categories of claims and are willing to pay above par levels.

In the past 12 months over \$1 billion coming from a string of legal wins and by PWC, the bank's European liquidator, has been made available to be distributed to holders of these claims. However, this represents under 2% of the estimated \$53.8 billion outstanding in LBIE claims².

"The secondary market in insolvency claims is a market which did exist prior to 2008/2009, but has taken new shape given these high profile liquidations", explains Florian de Sigy, Founder and Managing Partner of Gamma Finance. "Constrained asset owners, many of whom have greatly marked down the value of these holdings, now need to take a renewed look at any claims on their books and examine their options. This becomes especially important given that the pay-out process on many of these liquidations will take several more years."

"For banks and insurers, who face the capital cost of holding illiquid assets under the Basle III and Solvency 2 regimes, this could be an opportunity to exit such positions at favourable levels" adds de Sigy. "Given the levels of impaired assets being reported across the banking sector at present and the impact this is having on capital ratios, the benefit to institutions of a speedy resolution is understandable - as well as the potential scale of the market" explains de Sigy. "However, given the wide variety of claims against different Lehman Brothers entities and the differing prices attached to these, optimising the exit price from such positions isn't straightforward."

Using the example of LBIE, PWC currently estimate that the liquidation of the European arm will take at least another 5-8 years to work and, whilst acknowledging the price that unsecured claims can change hands for, they have been open that the end pay-out for holders is far from determined."

"There is evidence that not everyone who holds these assets is aware of the potential value of what they have on their books", says de Sigy "Gamma is experienced in advising buyers and sellers of illiquid assets on market conditions and understands the need to have access to the right counterparties that can gain from economies of scale - not just across Lehman Brothers and MF Global but also lesser publicised bankruptcies."

"This market won't exist in its current state forever; assumptions can and have changed as cases are settled and judgements made" comments Dan Nolan, who advises on these claims for Gamma. "Finding the right buyers for each type of claim is very important. Equally, because the process against Lehman in the US remains at a very different stage, it is important that asset owners understand what type of claim they actually have. This is where Gamma's advisory approach comes into effect, as we first work with the holder to ascertain what type of claim they actually hold before assisting them to identify and approach relevant counterparties to purchase their claims."

Gamma Finance is an independent specialist advisor across illiquid and constrained assets, with a focus on Hedge Funds, Private Equity and Bankruptcy/Litigation claims.

Gamma Finance seeks to meet clients' requirements advising on the full investment cycle from origination, to market analysis and exit strategies. Gamma Finance is uniquely positioned in supporting clients to optimise their investment objectives, having successfully advised on circa \$1 billion of illiquid assets across transactions ranging in size from \$1 million to \$200 million.