

# Hedge funds call for intervention on Lehman

By James Mackintosh

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A group of the largest US hedge funds has called on the Bank of England to intervene to free an estimated \$65bn (£38bn) in assets frozen in London in the collapse of Lehman Brothers, warning that delays “could be disastrous for UK plc”.

The funds, through the Managed Funds Association, said the scale of the problem was so great that it could undermine bank rescue plans as tens of billions of dollars would be kept out of the market. It was also likely to lead to the failure of some fund managers, said Richard Baker, chief executive of the MFA.

The warnings come as hedge funds have been quietly shifting billions of dollars of assets out of London to the US, claiming that the US legal system provides greater protection.

Mr Baker, a former congressman, said that by damaging confidence in prime brokers after the fall of Lehman, delays in returning assets were prompting hedge funds to hold more cash and to move assets out of London.

“Prime brokerage clients are already withdrawing their assets from the UK prime brokers/UK branches of overseas prime brokers,” he wrote in a letter to Mervyn King, governor of the Bank. “This development is calling into question the future of the UK prime brokerage market.”

This would be particularly serious for London because prime brokers, which provide services to hedge funds including financing, have been one of the most profitable divisions of banks in the past few years.

Mr Baker, who is supported by London’s hedge fund trade association, urged the Bank to co-ordinate with the Financial Services Authority and the Treasury to remove the personal liability of the administrators of Lehman so they can distribute assets.

However, the Bank said it had “no powers” to override the administration process. Administrators at PwC running Lehman’s London business have won court approval for a process to work out how much they hold in protected assets but have warned it could take years to finalise.

Steven Pearson, one of the administrators, told Bloomberg that clients had \$45bn of investments held through Lehman’s European prime brokerage, with another \$20bn in short positions, bets that shares will fall in price.

*Additional reporting by Chris Giles*

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