September 2008

WHERE I WAS WHEN...

COLLAPSE OF LEHMAN BROTHERS

TOM MACMILLAN

Chair, Board of Directors, CIBC Mellon

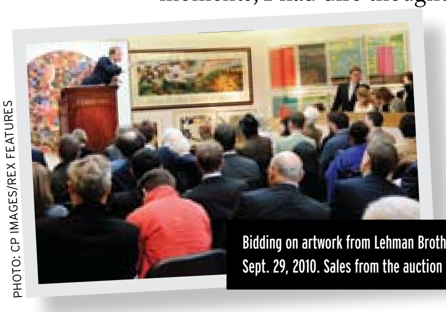
(President and CEO, 1998-2009)

INSTEAD OF ENJOYING a networking lunch and golf game with a banker friend in Vienna on Sept. 14, 2008—the day before Lehman Brothers filed for Chapter 11 bankruptcy protection—Tom MacMillan was cloistered in his hotel room. The then-CEO of CIBC Mellon (now chair of its board of directors) was in the Austrian capital for Sibos, an annual financial services conference.

While he was flying over, the Lehman situation was in the air. "We knew a number of houses, including Lehman, had been struggling for a while." (Stories of the bank's fate had infiltrated the press for weeks before.)

When his plane touched down in Vienna on the morning of the 14th, MacMillan's BlackBerry "went bananas." He taxied straight to the hotel and was on the phone until 3 a.m. the next morning, engaged in a series of conference calls with CIBC Mellon and its two parent companies: CIBC and BNY Mellon.

"I experienced [the situation] very intensely, in part because I was by myself in a hotel room a long way from home," MacMillan says. "At moments, I had dire thoughts about the future of the financial industry."



Bidding on artwork from Lehman Brothers at Christie's in London, Sept. 29, 2010. Sales from the auction collected US$2.6 million.

PHOTO: CP IMAGES/REX FEATURES

But however concerned MacMillan was on the inside, he remained stoic, focusing on how best to protect CIBC Mellon's clients and his company. Over the next three days, the bank had to work out how to ensure that its clients' securities (on loan with Lehman) were returned as quickly as possible, as well as how to communicate with key stakeholders. "The relationship managers and capital markets group began leaving voice messages for our securities lending clients on Sunday evening. We stayed in close contact with our clients, logging hundreds of points of contact through emails, letters and phone conversations."

In the short term, communicating with clients post-Lehman was critical. There was also a significant long-term impact on the pension industry. "The default reinforced the need for a high degree of transparency," MacMillan explains, noting that plan sponsors are now placing a higher value on understanding who their counterparties are and becoming even more thorough in the due diligence process of monitoring their securities lending programs.

Risk mitigation and governance have also become increasingly important in the last three years. For example, says MacMillan, pension plan sponsors are focusing more on information delivery, reporting and stability in the institutions they partner with.

MacMillan eventually left his hotel room to attend the conference, where conversations with other participants quickly turned to Lehman. But he could not truly focus and decided to fly home early. "I knew where I needed to be." BC

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FROM START TO *Finish*

1850 - Henry, Emanuel and Mayer Lehman found Lehman Brothers in Montgomery, Ala.

POST-1865 - Lehman headquarters moves to New York City

1899 - Lehman underwrites its first initial public offering (IPO)

1977 - Lehman merges with Kuhn, Loeb & Co., an investment bank

1984 - Shearson/American Express acquires Lehman

1994 - American Express spins off Lehman Brothers Kuhn Loeb in an IPO, Lehman Brothers Holdings

2008 - Lehman is No. 37 on the Fortune 500 list

SEPT. 15, 2008 - Lehman files for bankruptcy

SEPTEMBER 2010 - Artwork from Lehman Brothers is auctioned off at Sotheby's and then Christie's, collecting a total of almost $15 million