In Re: CDS Antitrust Litigation

Overview of Plan for Distributing the Settlement Fund to Claimants

1. The Net Settlement Fund (that is, the $1,864,650,000 fund including any interest earned and net of any Court-approved attorneys' fees, expenses, and incentive awards) will be distributed to Class Members who submit qualifying claims on a *pro rata* basis. This process will occur in three steps: (1) identifying the "Covered Transactions," as defined in Paragraph 2(i) of the Settlements, qualifying for claims under the Settlements; (2) for each qualifying Covered Transaction, estimating the amount of bid-ask spread inflation resulting from the Dealer Defendants' alleged conduct; and (3) calculating the *pro rata* share of an individual claimant's Settlement proceeds in relation to the total Settlement proceeds for all claimants that submit a valid claim.

   Further information about each of these steps is provided below. To the extent changes to this Plan of Distribution are made, this document will be updated to reflect them.

I. Identifying Covered Transactions

2. In accordance with the terms of the Settlements, a transaction must be a Covered Transaction, as defined in Paragraph 2(i) of the Settlements, to be eligible for Settlement proceeds.

3. To qualify as a Covered Transaction under the Settlements, a class member must have incurred a bid-ask spread in connection with the purchase or sale of a CDS contract with one of the Dealer Defendants or their affiliates in which: (i) the purchase or sale was by or on behalf of a Person either domiciled or located (*e.g.*, had a principal place of business) in the United States or its territories at the time of such purchase or sale; (ii) if the Person was domiciled and located outside the United States and its territories at the

time of any such purchase or sale, where such purchase or sale was in United States commerce; or (iii) such purchase or sale otherwise falls within the scope of the U.S. antitrust laws.

4. To identify Covered Transactions, Plaintiffs' counsel and their consulting experts have obtained and analyzed records maintained in the Depository Trust & Clearing Corporation's ("DTCC's") Trade Information Warehouse ("DTCC Trade Dataset"). The DTCC Trade Dataset is a global repository that captures information about each CDS transaction registered with the DTCC.

5. Plaintiffs' counsel and their consulting experts have taken a number of steps to assemble, organize, and analyze the data in order to identify Covered Transactions for each potential claimant.

6. Transactions that would not have been adversely impacted by the alleged conspiracy or that do not meet certain legal requirements do not qualify for claims under the Settlements. These transactions have been removed from the set of Covered Transactions. The following are examples of transactions that do not qualify for claims:

    a. Transactions that fall outside the Class Period of January 1, 2008 – September 25, 2015;

    b. Transactions that were not directly between a Class Member and one of the Dealer Defendants or their affiliates; and

    c. Transactions that are not confirmed trades, terminations, or assignments in the DTCC Dataset, such as bookkeeping entries or other entries that are noneconomic in nature, including trade compression entries or entries with $0 notional amounts.

d. In addition, Plaintiffs' consulting experts have removed duplicate transaction records (such as where trade information was submitted to the DTCC by both counterparties) and taken other steps to avoid the double counting of transactions or the overstatement of affected notional volume due to index rolls. They also removed transaction records containing an invalid DTCC reference ID.

7. Plaintiffs' counsel and their consulting experts have also worked with the Settlement Administrator (Garden City Group, LLC) to remove transactions that do not have a sufficient connection to United States commerce to qualify as a Covered Transaction under the settlement. This work involved, among others, the following steps:

   a. Using public databases and information provided by the DTCC and the Dealer Defendants, Plaintiffs' counsel worked with the Settlement Administrator to determine the domicile and location of Class Members. All qualifying transactions involving a Class Member domiciled or located in the United States or its territories are treated as Covered Transactions.

   b. Plaintiffs' counsel also worked with the Settlement Administrator to determine the domicile and location of the Dealer Defendants. All qualifying transactions between Class Members and a Dealer Defendant that is domiciled or located within the United States or its territories are also treated as Covered Transactions.

   c. Qualifying transactions between a Class Member domiciled and located outside of the United States and its territories and a Dealer Defendant domiciled and located outside of the United States and its territories are not treated as Covered Transactions unless data provided by a Dealer Defendant (or otherwise) shows that the transaction was executed at a U.S. trading desk or that the trade otherwise occurred in U.S. commerce or falls within the scope of the U.S. antitrust laws.

8. All qualifying Covered Transactions were sorted by Class Member in order to make them available to each potential claimant. Additionally, Plaintiffs' consulting experts converted non-U.S. dollar denominated transactions into U.S. dollars.

II. Estimating the Bid-Ask Spread Inflation on Covered Transactions

9. Because the DTCC Trade Dataset does not include information about the bid-ask spread paid by a Class Member on each transaction, and it also does not identify the time of day when a transaction occurred, Plaintiffs' counsel and their consulting experts have worked to estimate the applicable bid-ask spread for each Covered Transaction using data produced by Defendant Markit ("the Markit Data").

10. The Markit Data captures quotes provided to Markit by the Dealer Defendants throughout the Class Period. Unlike the DTCC Trade Dataset, the Markit Data includes the date and time of each upfront bid and ask quote provided by the Dealer Defendants for a specific CDS contract and tenor. The Markit Data also provides a measure of the quote quality based on algorithms created by Markit (from 0 at the low end, to 10 at the high end).

11. In estimating the bid-ask spreads, Plaintiffs' consulting experts utilized quotes in the Markit Data only when: (a) both the bid and ask fields were populated for an individual quote; (b) the quotes came from one of the Dealer Defendants or their affiliates; and (c) the Markit quote quality score was 8.5 or higher. Any Markit quotes that were published

as part of "blast" runs (*i.e.*, where the quotes were sent contemporaneously to multiple recipients and appeared as multiple records in the Markit Data) were reduced to a single entry.

12. The resulting subset of quotes was sorted by reference entity (or index series), tenor, date, and time-stamp. Plaintiffs' consulting experts identified the narrowest spread within each hour and averaged across all hours within a trading day to establish an average bid-ask spread for contracts with that reference entity (or index series) and tenor on each day (the "Markit Bid-Ask Spread").

13. Some CDS contracts, such as certain single name and index CDS, were quoted in running spreads in the Markit Data. Plaintiffs' consulting experts converted these quotes to equivalent upfront bid and ask prices using the ISDA CDS Standard Model. The source code for this model is available on ISDA's website. *See ISDA CDS Standard Model*, http://www.cdsmodel.com/cdsmodel/ (last accessed Jan. 8, 2016).

14. Plaintiffs' consulting experts then matched the notional amount of each Covered Transaction to that transaction's respective Markit Bid-Ask Spread.

    a. Most Covered Transactions were matched using the CDS contract's reference entity (or index series), tenor, and trade date as reported in the DTCC Trade Dataset.

    b. As single name, index, and tranche CDS contracts with tenors of 3, 5, 7, and 10 years were traded more frequently than other tenors, contracts with different tenors were matched with the Markit Bid-Ask Spread for the most similar 3, 5, 7, or 10 year tenor on the same reference entity (or index series) and trade date.

c. On certain dates when the Markit Data did not provide any quotes with quality scores of 8.5 or higher, Plaintiffs' consulting experts used an algorithm to search for a contemporaneous Markit Bid-Ask Spread using data from up to 15 trading days before and up to 15 trading days after the trade date. If no Markit Bid-Ask Spread could be found within this window, they used the average daily bid-ask spread for the Markit industry sector (*e.g.*, financial, consumer goods, or energy sectors) applicable to that CDS.

d. For some categories of CDS contracts, Markit Data quoted in upfront terms was not readily available for certain periods. This was the case for CMBX from January 1, 2008 to mid-April 2009 and tranche CDS before 2010. For CMBX, Plaintiffs' consulting experts constructed a proxy using the ratio of CMBX bid-ask spreads to ABX bid-ask spreads on days when both were available in upfront terms. This ratio was then applied to the ABX bid-ask spreads and used as an estimate for CMBX spreads on days where CMBX spreads in the Markit Data were unavailable. For tranche CDS, Plaintiffs' consulting experts constructed a proxy using the relationship between the tranche bid-ask spread and a related index bid-ask spread. For POS and MBX contracts, Plaintiffs' consulting experts derived a proxy from the average bid-ask spread for IOS contracts. In other cases, a proxy was constructed using the underlying institutional and economic characteristics of the CDS contracts.

15. A buy-side entity does not incur the full spread on a transaction, but rather incurs only one half of the bid-ask spread, commonly known as the "half spread." To account for this, when the DTCC notional trading volumes for each Covered Transaction are matched

to a Markit Bid-Ask Spread, the spread is reduced by one-half (the "Markit Half-Spread").

16. Plaintiffs' consulting experts then estimated the amount of spread inflation (for claims purposes only) on the Markit Half-Spread applicable to each Covered Transaction. Based upon a review of empirical evidence on spread compression experienced in other markets and evidence obtained in discovery from Defendants, Plaintiffs' counsel and their consulting experts have estimated the bid-ask spread inflation associated with each Covered Transaction, for claims administration purposes only, to be 20%.

17. This percentage does not necessarily reflect the percentage that Plaintiffs would have advocated for in the litigation of these claims, but is being used only for purposes of this claims administration process. Since this inflation percentage is applied consistently across all transactions, *pro rata* recoveries are not affected by the specific percentage applied for purposes of claims administration.

III. Calculation of Each Claimant's Pro Rata Share of Settlement Proceeds

18. Each Class Member may submit a claim for its share of the Net Settlement Fund.

19. Each Class Member will be able to review the Covered Transactions that have been identified as applicable to it based on the processes outlined above. Class Members will also have the opportunity to submit additional transactions and information for consideration.

20. Upon the Settlements and the Plan of Distribution being granted final approval by the Court, and after all claims have been submitted, reviewed, and processed, each individual

claimant's *pro rata* share of the Net Settlement Fund can then be calculated by the Settlement Administrator.

21. To make this calculation, the Settlement Administrator will sum the spread inflation, as estimated using the methods outlined above, on each Covered Transaction for each Class Member that submits a claim. This sum will represent each claimant's individual spread inflation.

22. The Settlement Administrator will then sum the total spread inflation, as described above, across each and every claimant. This amount will represent the total spread inflation of all claimants.

23. The Settlement Administrator will then compute each individual claimant's claim ratio. This is the ratio of the claimant's individual spread inflation to the total spread inflation of all claimants.

24. Finally, the Settlement Administrator will compute the individual claimant's *pro rata* share of the Settlements by multiplying the individual claimant's claim ratio by the Net Settlement Fund.

25. Payment of each claimant's *pro rata* share of the Net Settlement Fund will be made by check or wire transfer as designated on the claimant's claim form.