Plain English Summary of the Auction Methodology in the 2009 Ecuador CDS Protocol

This summary is based on the 2009 Ecuador CDS Protocol, as published by ISDA on January 6, 2009 (the **Protocol**) and summarizes the auction methodology contained in Exhibit 2 to the Protocol (the **Auction Methodology**). This summary is for informational purposes only, is not a summary of the entire Protocol and is subject to the Protocol in all respects. Market participants should examine the text of the Protocol itself before deciding whether to adhere to the Protocol or take any other action with respect thereto. ISDA makes no representation or warranty as to the accuracy or completeness of any information contained in this summary and accepts no liability for the accuracy or completeness of such information. All times of day herein refer to such times in New York City. Capitalized terms used but not defined in this summary have the meaning specified in the Protocol.

Important Dates

- January 6 — Protocol Published
- January 12 — Cut-Off Date for Adherence and Bidding Agreement Letters
- January 14 — Auction Date
- January 20 — Deadline for receipt of Notice of Physical Settlement for trades formed under the Protocol
- January 23 — Latest date on which the Physical Settlement Date can occur for trades formed under the Protocol (the Physical Settlement Date is 3 Business Days after the date on which the Notice of Physical Settlement is effective)
- January 23 — Cash Settlement Date for Covered Transactions

Covered Transactions

The Protocol covers the following types of transactions, as further set out in Section 5 of the Protocol (**Definitions**):

- Tranched or untranched Transactions referencing a CDX index or referencing a bespoke portfolio;
- Single name CDS Transactions;
- Constant Maturity Swap Transactions (both portfolio and single name);
- Principal Only and Interest Only Transactions;
- First to Default and Nth to Default Transactions;
- Recovery Lock Transactions; and
- Swaptions (both single name and portfolio);

provided (a) the Republic of Ecuador (**Ecuador**) is a Reference Entity under the Transaction, (b) either (1) no Reference Obligation is specified in respect of Ecuador or (2) at least one Reference Obligation specified in respect of Ecuador is not Subordinated to any of the Deliverable Obligations, (c) the Effective Date is on or prior to December 15, 2008 and the Scheduled Termination Date is on or after (i) November 15, 2008 in respect of any such Credit Derivative Transaction for which Grace Period Extension is specified as applicable in the Documentation applicable to such Credit Derivative Transaction (and the Grace Period is either specified as 30 calendar days or more therein or no Grace Period is specified therein) or (ii) the Default Date in respect of all other such Credit Derivative Transactions , (d) the Trade Date is on or prior to the Business Day immediately prior to the Auction Date, and (e) the relevant portion of the Transaction is still outstanding. Transactions documented under either the 1999 or 2003 Credit Derivatives Definitions that meet these criteria are covered by the Protocol.

The Protocol excludes any Transaction for which the Deliverable Obligations specifically listed in the Protocol would not be considered Deliverable Obligations. This would include but not be limited to Reference Obligation Only Transactions, Loan Only Transactions, Preferred CDS Transactions and Fixed Recovery Transactions.

Auction Timing

January 12, 2009

Before 5:00 p.m. Participating Bidders submit Bidding Agreement Letters.

January13, 2009

The Administrators publish a list of the Participating Bidders.

January 14, 2009 (Auction Date)

The auction procedures described below will be conducted and a Final Price will be determined to be applied to all of the Covered Transactions.

The Deliverable Obligations for the auction are listed in the Auction Methodology.

Between **9:45 a.m. and 10:00 a.m.**, Participating Bidders submit Inside Market Bids, Inside Market Offers, Dealer Physical Settlement Requests and Customer Physical Settlement Requests (to the extent received from customers).

- Inside Market Bids and Inside Market Offers are firm quotations, expressed as percentages, to enter into credit derivative transactions in respect of Ecuador on terms equivalent to the Representative Auction-Settled Transaction specified in the Protocol. The Representative Auction-Settled Transaction is a deemed standard, single name credit default swap referencing Ecuador and assuming an Event Determination Date of December 18, 2009.
- A Participating Bidder's Inside Market Bid and Inside Market Offer must differ by no more than 2% of par and must be in the size specified in the Protocol ($3 million).
- Dealer Physical Settlement Requests and Customer Physical Settlement Requests are firm commitments, submitted by a Participating Bidder, on its own behalf or on behalf of a customer, as applicable, to enter into a Representative Auction-Settled Transaction. Each Dealer Physical Settlement Request must be, to the best of such Participating Bidder's knowledge and belief, in the same direction as, and not in excess of, its Market Position. Each Customer Physical Settlement Request must be, to the best of the relevant customer's knowledge and belief (aggregated with all Customer Physical Settlement Requests submitted by such customer), in the same direction as, and not in excess of, its Market Position.[1]
- If the Administrators do not receive Valid Inside Market Submissions from at least six Participating Bidders, the timeline will be adjusted according to the Auction Methodology, otherwise it will proceed as follows.

Between **10:00 a.m. and 10:30 a.m**., the Administrators calculate the Open Interest, the Inside Market Midpoint, and any Adjustment Amounts in respect of each Auction.

- The Open Interest is the difference between all Physical Settlement Sell Requests and all Physical Settlement Buy Requests.
- To determine the Inside Market Midpoint, the Administrators (1) sort the Inside Market Bids in descending order and the Inside Market Offers in ascending order, identifying non-tradeable markets for which bids are lower than offers, (2) sort non-tradeable markets in terms of tightness of spread between Inside Market Bid and Inside Market Offer and (3) identify that half of the non-tradeable markets with the tightest spreads. The Inside Market Midpoint is determined as the

[1] "**Market Position**" means, in respect of a customer or a Participating Bidder, the aggregate amount of Deliverable Obligations the relevant Participating Bidder or customer, as applicable, would have to buy or sell in order to obtain an identical risk profile with respect to both (a) all Covered Transactions to which it or any of its affiliates is a party and for which every other party thereto is an Adhering Party and (b) all Auction-Linked Cash Settled Transactions, after settlement under the Protocol compared to its risk profile before settlement under the Protocol.

arithmetic mean of the Inside Market Bids and Inside Market Offers contained in the half of non-tradeable markets with the tightest spreads.

- Any Participating Bidder whose Inside Market Bid or Inside Market Offer forms part of a tradeable market will be required to make a payment to ISDA (an **Adjustment Amount**), calculated in accordance with the Auction Methodology.
- If for any reason no single Inside Market Midpoint can be determined, the procedure set out above may be repeated as set out in the Auction Methodology.

No later than **10:30 a.m.**, the Administrators will publish the Open Interest, the Inside Market Midpoint and the details of any Adjustment Amounts in respect of the Auction.

Between **12:45 p.m. and 1:00 p.m**., Participating Bidders submit Limit Bids (if the Open Interest is an offer to sell Deliverable Obligations) or Limit Offers (if the Open Interest is a bid to purchase Deliverable Obligations) on behalf of customers and for their own account.

- If the Open Interest is zero, the Final Price will be the Inside Market Midpoint.
- If the Open Interest is a bid to purchase Deliverable Obligations, the Administrators will match the Open Interest against all Inside Market Offers and Limit Offers as further described in the Auction Methodology. If the Open Interest is an offer to sell Deliverable Obligations, the Administrators will match the Open Interest against all Inside Market Bids and Limit Bids as further described in the Auction Methodology.
- The Final Price will be the price associated with the matched market that is the highest offer or the lowest bid, as applicable, provided that (a) if the Open Interest is an offer to sell and the price associated with the lowest matched bid is more than 1% of par higher than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint plus 1% of par and (b) if the Open Interest is a bid to purchase and the price associated with the highest offer is more than 1% of par lower than the Inside Market Midpoint, then the Final Price will be the Inside market Midpoint minus 1% of par.
- If, once all the Inside Market Bids and Limit Bids or Inside Market Offers and Limit Offers, as applicable, have been matched to the Open Interest, part of the Open Interest remains, the Final Price will be (a) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of (i) 100% and (ii) the highest Limit Offer or Inside Market Offer received or (b) if the Open Interest is an offer to sell Deliverable Obligations, zero.

No later than **2:00 p.m.**, the Administrators will publish on www.creditfixings.com (1) the Final Price, (2) the names of the Participating Bidders who submitted bids, offers, Dealer Physical Settlement Requests and Customer Physical Settlement Requests, together with the details of all such bids and offers submitted by each and (3) the details and size of all matched trades.

Execution of Trades Formed in the Auction

Each Participating Bidder whose Limit Bid or Inside Market Bid (or Limit Offer or Inside Market Offer if applicable) is matched against the Open Interest, and each Participating Bidder that submitted a Customer Physical Settlement Request or Dealer Physical Settlement Request, is deemed to have entered into a Representative Auction-Settled Transaction (**RAST**), and each customer that submitted such a Limit Bid, Limit Offer, or Physical Settlement Request is deemed to have entered into a RAST with the Dealer through whom the customer submitted such bid or offer. Accordingly, each such Participating Bidder or customer that is a seller of Deliverable Obligations pursuant to a trade formed in the auction must deliver by **4:00 p.m. on January 20, 2009** to the buyer to whom such Participating Bidder or customer has been matched a Notice of Physical Settlement indicating the Deliverable Obligations that it will deliver, and such Deliverable Obligations will be sold to the buyer in exchange for payment of the Final Price determined in the Auction on January 14, 2009. If the seller of Deliverable Obligations fails to deliver the Deliverable Obligations specified in the Notice of Physical Settlement, the buyer of Deliverable Obligations will have the applicable remedies set forth in the Credit Derivatives Definitions, as modified by the Protocol.