

Determinations Committee Decision

Date:	May 27, 2010
Determinations Committee:	Americas
Meeting Date:	May 27, 2010

DC Issue 2010032501:	Has a Bankruptcy Credit Event occurred with respect to Ambac Assurance Corporation?	
1st Question for vote:	In respect of each obligation from the Supplemental List that is included in the list provided, do you agree that such obligation is NOT a Deliverable Obligation for purposes of the Auction to be held with respect to Ambac Assurance Corporation? (Please see Annex 1)	
Vote result:	Yes	
Votes:	15 'Yes' votes and 0 'No' votes	
	Bank of America / Merrill Lynch	Yes
	Barclays	Yes
	Citibank	Yes
	Credit Suisse	Yes
	Deutsche Bank AG	Yes
	Elliott Management Corporation	Yes
	Goldman Sachs	Yes
	JPMorgan Chase Bank, N.A.	Yes
	Legal & General Investment Management Limited	Yes
	Morgan Stanley	Yes
	Pacific Investment Management Company LLC	Yes
	Primus Asset Management, Inc.	Yes
	Rabobank International	Yes
	The Royal Bank of Scotland	Yes
	UBS	Yes

2nd Question for vote:	In respect of the obligation from the Supplemental List provided, do you agree (a) to challenge the inclusion of such obligation on the Final List and (b) that such obligation is NOT a Deliverable Obligation for purposes of the Auction to be held with respect to Ambac Assurance Corporation? (Please see Annex 2)	
Vote result:	Yes	
Votes:	15 'Yes' votes and 0 'No' votes	
	Bank of America / Merrill Lynch	Yes
	Barclays	Yes

	Citibank	Yes
	Credit Suisse	Yes
	Deutsche Bank AG	Yes
	Elliott Management Corporation	Yes
	Goldman Sachs	Yes
	JPMorgan Chase Bank, N.A.	Yes
	Legal & General Investment Management Limited	Yes
	Morgan Stanley	Yes
	Pacific Investment Management Company LLC	Yes
	Primus Asset Management, Inc.	Yes
	Rabobank International	Yes
	The Royal Bank of Scotland	Yes
	UBS	Yes

3rd Question for vote:	Do you agree to publish the 2010 Ambac Assurance Corporation Credit Derivatives Auction Settlement Terms in the form provided, and that a public comment period will not apply to these auction terms?	
Vote result:	Yes	
Votes:	15 'Yes' votes and 0 'No' votes	
	Bank of America / Merrill Lynch	Yes
	Barclays	Yes
	Citibank	Yes
	Credit Suisse	Yes
	Deutsche Bank AG	Yes
	Elliott Management Corporation	Yes
	Goldman Sachs	Yes
	JPMorgan Chase Bank, N.A.	Yes
	Legal & General Investment Management Limited	Yes
	Morgan Stanley	Yes
	Pacific Investment Management Company LLC	Yes
	Primus Asset Management, Inc.	Yes
	Rabobank International	Yes
	The Royal Bank of Scotland	Yes
	UBS	Yes

4th Question for vote:	Do you agree to the publication by the DC Secretary on its Website of the statement provided on behalf of the Convened DC for this DC question? (Please see Annex 3)	
Vote result:	Yes	
Votes:	15 'Yes' votes and 0 'No' votes	
	Bank of America / Merrill Lynch	Yes
	Barclays	Yes
	Citibank	Yes
	Credit Suisse	Yes
	Deutsche Bank AG	Yes
	Elliott Management Corporation	Yes
	Goldman Sachs	Yes
	JPMorgan Chase Bank, N.A.	Yes
	Legal & General Investment Management Limited	Yes
	Morgan Stanley	Yes
	Pacific Investment Management Company LLC	Yes
	Primus Asset Management, Inc.	Yes
	Rabobank International	Yes
	The Royal Bank of Scotland	Yes
	UBS	Yes

ANNEX 1

CUSIP	ISIN	Deal Name	Tranche	Maturity	Currency
07401WAP4	US07401WAP41	Bear Stearns Second Lien Trust 2007-1	II-A	8/25/2037	USD
07401WBA6	US07401WBA62	Bear Stearns Second Lien Trust 2007-1	III-A	8/25/2037	USD
12668BBQ5	US12668BBQ59	CWALT, Inc. Mortgage Pass-Through Certificates, Series 2005-81	A-3	2/25/2037	USD
41161VAE0		Harborview Mortgage Loan Trust 2006-7	2A1C	9/19/2046	USD
86361WAK7	US86361WAK71	Structured Asset Mortgage Investments II Trust 2006-AR8	A-6B	10/25/2037	USD

ANNEX 2

CUSIP	ISIN	Deal Name	Tranche	Maturity	Currency
45661AAC6	US45661AAC62	IndyMac Home Equity Loan Trust 2004-2	Notes	9/28/2036	USD

Ambac Assurance Corporation Auction Guidance - published May 27, 2010

In connection with the Auction scheduled to occur in respect of credit derivatives transactions referencing Ambac Assurance Corporation ("Ambac"), the Credit Derivatives Determinations Committee for the Americas (the "DC") has, at the request of several market participants, resolved to publish this statement in order to facilitate the calculation of the outstanding principal balance of any Deliverable Obligation delivered pursuant to a transaction arising as a result of a Physical Settlement Request or a Limit Order Submission placed in the Auction.

THE DC HAS PUBLISHED THIS STATEMENT SOLELY AS PRACTICAL GUIDANCE TO FACILITATE SETTLEMENT OF TRANSACTIONS ARISING OUT OF THE AMBAC AUCTION. MARKET PARTICIPANTS ARE RESPONSIBLE FOR MAKING SUCH CALCULATIONS IN RESPECT OF THEIR OWN PHYSICAL SETTLEMENT REQUEST AND LIMIT ORDERS. THE DC DOES NOT PROVIDE ANY ASSURANCE THAT THE GUIDANCE DESCRIBED HERE WILL OR MUST BE PRECISELY FOLLOWED BY ANY MARKET PARTICIPANT, INCLUDING ANY DC MEMBER. Furthermore, there is no assurance that the DC will, in the future, publish guidance of this type.

The DC notes that many of the Deliverable Obligations on the Final List for the Ambac Auction are asset-backed securities in respect of which Ambac has provided financial guarantee insurance policies. For each Deliverable Obligation that is an asset-backed security specified in a Notice of Physical Settlement ("NOPS") for a Representative Auction-Settled Transaction ("RAST"), the "outstanding principal balance", as that term is used in the 2003 ISDA Credit Derivatives Definitions, should reflect the principal amount owed or potentially owed by Ambac under the corresponding policy, rather than the principal amount outstanding in respect of the asset-backed security itself and, therefore, the "adjusted factor" in respect of a particular asset-backed security as of its specified Delivery Date will be relevant.

While generally equivalent in most circumstances, amounts owed by the issuer and the Reference Entity may differ from one another where the issuer of an asset-backed security has failed to make a principal payment and the insurer has failed to pay on claims in respect of that amount. PLEASE NOTE, therefore, that, in specifying an outstanding principal balance in a NOPS, it may be necessary to add the amount of insurance payments past due to the amount of the relevant certificate principal balance.

Some market participants have noted that the market convention for denoting the outstanding principal balance of certain asset-backed securities is to cite the "principal factor". These principal factors, however, do not take account of whether any relevant financial insurer has made any principal payments that the issuer of the asset-backed security failed to make (i.e. the outstanding principal balance should be inclusive of adjustments to reflect unpaid claims as of the Delivery Date for that Deliverable Obligation). The most reliable source for the adjusted factor is the most current remittance report for the Deliverable Obligation as of the relevant Delivery Date rather than a Bloomberg screen shot, which may

not be as up to date. Where the most current remittance report as of the relevant Delivery Date specifies a factor that does not include the unpaid amounts due from the Reference Entity, such factor must be adjusted accordingly. In order to minimize breaks, parties should provide a copy of the relevant remittance report in support of the adjusted factor used to calculate the outstanding principal balance for any Deliverable Obligation specified in their NOPS.

In order to determine the outstanding principal balance for any Deliverable Obligation under a credit derivative referencing Ambac, market participants may therefore need to add to the stated certificate principal balance the amount of any claims owed but unpaid by Ambac in respect of that particular security. This may, in some cases, be achieved by adding certain of the figures listed as "losses" to the stated principal balance factor for the relevant asset-backed security. Some of the servicer reports for the relevant asset-backed security may state the amount owed but unpaid by the issuer and/or the insurer on a cumulative, rather than month to month basis. Where the report does not do so, market participants may consider taking the following steps:

- 1) Check the Bloomberg screen shot for the note.
- 2) If the Bloomberg screen shot shows a monthly loss breakdown, refer to the servicer report for the loss month. The relevant servicer report should show whether Ambac made good on the loss. A worked example of how to interpret a servicer report in this respect is set forth in the *Syncora Guarantee Inc. Auction Guidance*, published on May 26, 2009. This is available on the ISDA website. Click [here](#) to view. Market participants should contact the trustee for the relevant bond to receive copies of servicer reports if they do not already have them.
- 3) If the Bloomberg screen shot only shows a cumulative loss breakdown, a market participant will need to go through monthly reports going back to the note's issue date to determine definitively whether any amounts are owing from Ambac above the stated certificate principal balance.

In order to minimize breaks, parties intending to deliver specific bonds into Physical Settlement Requests or Limit Order Submissions may wish to consult with their Participating Bidder counterparty as to the specific calculation, particularly for bonds that have recently missed payments (including any payments that might have been due prior to the Delivery Date).