

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15507**

**In the Matter of**

**JPMorgan Chase & Co.,**

**Respondent.**

**PLAN OF  
DISTRIBUTION**

**I. OVERVIEW**

The Division of Enforcement submits this Plan of Distribution (the “Distribution Plan”) to the United States Securities and Exchange Commission (the “Commission”) pursuant to Rule 1101 of the Commission’s Rules on Fair Fund and Disgorgement Plans (“Rules”), 17 C.F.R. § 201.1101. As described more specifically below, the Distribution Plan proposes to utilize civil money penalties paid by JPMorgan Chase & Co. (“Respondent” or “JPM”) to compensate investors harmed when JPM failed to disclose accurately in public filings made with the Commission the true amount of trading losses it suffered in the first quarter of 2012, and the effectiveness of its disclosure controls and procedures.

Beneficial owner investors who will be eligible for a distribution must have purchased and/or held eligible securities, defined in Paragraph 11.i. below, during the time period delineated in the Plan of Allocation described in Paragraphs 38-43 below, and met all other requirements of the Distribution Plan.

The Distribution Plan is subject to approval by the Commission and the Commission retains jurisdiction over its implementation.

## II. BACKGROUND

1. On September 19, 2013, the Commission issued an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”).<sup>1</sup> In the Order, the Commission found that the Respondent violated federal securities laws when it made material misstatements in its public filings with the Commission. Specifically, the Commission found that JPM made misstatements in its public filings regarding: a) the true amount of its losses in the first quarter of 2012 from positions held in the JPM Chief Investment Office’s (“CIO”) Synthetic Credit Portfolio; and b) the effectiveness of its disclosure controls and procedures. Respondent filed a Form 8-K on April 13, 2012, containing its earnings release for the first quarter of 2012. A misstatement concerning Respondent’s trading losses suffered during the first quarter of 2012 resulted in reported earnings being overstated. On May 10, 2012, after trading had closed, Respondent filed a Form 10-Q for the first quarter and held an analyst call. Respondent disclosed it had suffered approximately \$2 billion in trading losses since the start of the second quarter on the CIO’s Synthetic Credit Portfolio positions, and that there could be additional losses. However, the May 10 disclosures were not fully effective as corrective disclosure because the 10-Q (a) understated the size of the losses as of quarter end and b) failed to disclose that JPM’s disclosure controls and procedures were not effective.
2. The Commission ordered JPM to pay a civil money penalty in the amount of \$200,000,000. Respondent timely paid the total \$200,000,000 ordered by the Commission on September 19, 2013. In addition, JPM agreed to pay all reasonable administrative costs and expenses of any distribution, including the fees and expenses of a tax administrator, within thirty (30) days after receipt of an invoice for such services.<sup>2</sup>
3. The Commission established a Fair Fund in the amount of \$200,000,000 on March 5, 2014 pursuant to Section 308(a) of Sarbanes-Oxley for distribution to injured investors.<sup>3</sup>
4. The Fair Fund has been deposited at the United States Treasury Department’s Bureau of the Fiscal Service (“BFS”) for investment. Other than potential interest income from the BFS investment, the Commission does not anticipate that the Fair Fund will receive additional funds. All BFS fees will be paid from the Fair Fund.

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<sup>1</sup> See Exchange Act Rel. No. 70458 (September 19, 2013).

<sup>2</sup> *Id.*

<sup>3</sup> See Order Establishing a Fair Fund, Exchange Act Rel. No. 71654 (March 5, 2014).

## **A. Fund Administrator**

5. The Commission has appointed RCB Fund Services, LLC as the fund plan administrator (the “Administrator”).<sup>4</sup>
6. The Administrator has obtained a bond in the manner prescribed in Rule 1105(c) in the amount of \$200,000,000.
7. The Administrator will be entitled to reasonable administrative costs and expenses in connection with the administration and distribution of the Fair Fund (including any such costs and expenses incurred by agents, consultants or third parties retained, after consultation with and approval of the Commission staff, by the Administrator in furtherance of its duties). The Administrator will invoice all costs and expenses for the administration and distribution of the Fair Fund directly to the Respondent. A copy of the invoice will be provided to the Commission staff.
8. The Administrator will be responsible for administering the Fair Fund in accordance with the Distribution Plan. This will include, among other things, taking reasonable steps to identify and contact Potential Claimants as defined in Paragraph 11.p. below; obtaining accurate mailing information for Potential Claimants; establishing a website and staffing a call center to address inquiries during the claims process; developing a claims database; preparing accountings; cooperating with any tax administrator appointed by the Commission to satisfy any tax liabilities and to ensure compliance with income tax reporting requirements; advising Potential Claimants of deficiency in claims and providing an opportunity to cure any documentary defects; taking antifraud measures, such as identifying false, ineligible and overstated claims; making determinations under the criteria established herein as to Potential Claimant eligibility; advising Potential Claimants of final claim determinations; and disbursing the Fair Fund in accordance with this Distribution Plan.

## **B. Tax Administrator**

9. The Commission has appointed Damasco & Associates, LLP as the Tax Administrator of the Fair Fund (the “Tax Administrator”).<sup>5</sup> The Tax Administrator is required to administer the Fair Fund as a Qualified Settlement Fund under Section 468B (g) of the Internal Revenue Code, 26 U.S.C. §468B (g), and related regulations, 26 C.F.R. §§1.468B-1 through 1.468B-5. The Tax Administrator is responsible for

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<sup>4</sup> See Exchange Act Rel. No. 71825 (March 27, 2014).

<sup>5</sup> See Order Appointing Tax Administrator, Exchange Act Rel. No. 70615 (October 4, 2013).

all income tax related reporting requirements including the preparation and filing of tax returns. The Administrator will cooperate with the Tax Administrator in providing any information necessary for income tax compliance.

10. Tax compliance fees and costs will be paid by JPM as part of the cost of the administration of the Fair Fund. Any taxes on interest earned by the Fair Fund will be paid by the Fair Fund.

### **III. DEFINITIONS**

11. As used in this Distribution Plan, the following definitions will apply:
  - a. “**Claim Form**” means the form designed by the Administrator for the filing of claims in accordance with the terms of this Distribution Plan. The claim form will require, at a minimum, sufficient documentation reflecting any Potential Claimant’s purchases and dispositions of Eligible Securities during the Relevant Period, and the tax identification number of the Potential Claimant.
  - b. “**Claims Packet**” means the materials relevant to submitting a claim that may be provided to Potential Claimants known to the Administrator or to those who request such materials through a website or other appropriate delivery mechanisms. These materials will include a copy of the Fair Fund Notice and Claim Form (together with instructions for completion of the Claim Form).
  - c. “**Days**” means calendar days, unless otherwise specified herein.
  - d. “**Determination Notice**” means the notice sent by the Administrator to all Potential Claimants that submitted a Claim Form. The Determination Notice will state the Administrator’s determination of the validity (eligible, partially or wholly deficient, or ineligible) and amount of the claim of the Potential Claimant. The Determination Notice will provide to each Potential Claimant whose claim is deficient, in whole or in part, the reason(s) for the deficiency, notify the Potential Claimant of the opportunity to cure such deficiency, and provide instructions regarding what is required to do so. In the event the claim is denied, the Determination Notice will state the reason for such denial and notify the Potential Claimant of their opportunity to request reconsideration of their claim.
  - e. “**Distribution Payment**” means a payment to an Eligible Claimant in accordance with the terms of this Distribution Plan.
  - f. “**Distribution Plan**” means this Distribution Plan in the form approved by the Commission.
  - g. “**Eligible Claimant**” means a Potential Claimant who is finally determined by the Administrator to be eligible for a Distribution Payment from the Fair Fund

as a result of transactions in Eligible Securities during the Relevant Period. Eligible Claimants do not include:

- i. Respondent and any person who served from January 1, 2012 through the end of the Relevant Period as an officer or director of JPM<sup>6</sup>, and any assigns, creditors, heirs, distributees, spouses, parents, dependent children or controlled entities of any of the foregoing persons or entities;
  - ii. Any defendant in *SEC v. Martin-Artajo & Grout*, 1:13-cv-05677-GBD (SDNY);
  - iii. Any Person who, as of the claims filing deadline, has been the subject of criminal charges related to the violations found in the Order or any related Commission action;
  - iv. The Administrator, its employees, and those persons assisting the Administrator in its role as the Administrator;
  - v. Any affiliates<sup>7</sup>, assigns, creditors, heirs, distributees, spouses, parents, dependent children or controlled entities of any of the foregoing persons or entities described in g.ii.-g.iv. hereof; and/or
  - vi. Any assignee of another Person's right to obtain a recovery in the Commission's action against JPM, provided, however, that this provision shall not be construed to exclude those Persons who obtained such a right by gift, inheritance or devise.
- h. "**Eligible Loss Amount**" means the amount of loss an Eligible Claimant has incurred through the investment in Eligible Securities during the Relevant Period, to be calculated in accordance with the Plan of Allocation.
- i. "**Eligible Securities**" refers to shares of JPM common stock listed on a U.S. exchange and registered with the Commission. Transactions in JPM common stock during the Relevant Period that are pursuant to, or in connection with, a swap, an option or other derivative will not be eligible for a recovery.
- j. "**Fair Fund**" means the \$200,000,000 fund created by the Commission for the benefit of investors harmed by Respondent's violations discussed in the Order, plus any interest accrued from the BFS or escrow investments.
- k. "**Fair Fund Notice**" means a written notice from the Administrator to Potential Claimants informing them of the Fair Fund and its eligibility requirements, and explaining how to submit a claim. The notice will both be mailed and published pursuant to Paragraphs 14 and 15, below.

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<sup>6</sup> An "officer" excluded under this paragraph is any officer of JPM (not including any JPM subsidiaries or affiliates) required to file a Form 3, 4, or 5 with the Commission pursuant to Section 16 of the Securities Exchange Act of 1934 to report transactions in Eligible Securities during the 2012 calendar year.

<sup>7</sup> As used herein, "Affiliate" shall have the meaning described in Section 101(2) of the United States Bankruptcy Code, 11 U.S.C. § 101 et seq.

- l. “**Final Determination Notice**” means the Administrator’s written reply to each Potential Claimant who timely responded to the Determination Notice in an effort to cure a deficiency or seek reconsideration of a rejected claim. The Final Determination Notice will constitute the Administrator’s final ruling regarding the status of the claim.
- m. “**Net Fair Fund**” means the assets of the Fair Fund, less any amounts expended by the Fair Fund, plus any investment income.
- n. “**Person**” means natural individuals as well as legal entities such as corporations, partnerships, or a limited liability company.
- o. “**Plan of Allocation**” means the methodology by which a Potential Claimant’s Eligible Loss Amount is calculated. The Plan of Allocation is located in Paragraphs 38 through 43 below.
- p. “**Potential Claimants**” means those Persons, or their lawful successors, identified by the Administrator as having possible claims to recover from the Fair Fund under the Distribution Plan, or Persons asserting that they have possible claims to recover from the Fair Fund under the Distribution Plan.
- q. “**Relevant Period**” means the period of time commencing on April 13, 2012 and continuing through May 20, 2012.

#### **IV. ADMINISTRATION OF THE FAIR FUND**

##### **A. Identification of and Notification to Claimants**

- 12. The Administrator will, insofar as practicable, use its best efforts to identify Potential Claimants from a review of trading records, account information provided by the Respondent, registered broker-dealers and investment advisors, and any other source available to them. The Administrator may also engage a third-party firm, after consultation with and approval of the Commission staff, to assist in identifying Potential Claimants to maximize the participation rate of JPM investors in the Fair Fund.
- 13. The Administrator will design and submit a Claims Packet, including a Fair Fund Notice and Claim Form, to the Commission staff for review and approval.
- 14. Within sixty days (60) after Commission approval of the Distribution Plan, the Administrator will send an initial mailing of the Fair Fund Notice to all Potential Claimants known to the Administrator. Each Fair Fund Notice will notify the Potential Claimant of the Fair Fund, generally describe the Fair Fund’s claim and distribution processes, explain how to obtain a copy of the approved Distribution Plan

and Claim Form by request or from the Fair Fund website, and identify ways to submit a claim.

15. The Administrator will publish a notice of the Fair Fund on the internet and/or in print media in a manner deemed appropriate by the Administrator and not unacceptable to the Commission staff. The notice publication will include, at a minimum, a statement that the Fair Fund relates to investments in Eligible Securities, a brief description of eligibility requirements, and instructions for obtaining and submitting a Claim Form. The first notice will appear within ten (10) days of the initial mailing of the Fair Fund Notice.
16. The Administrator will establish and maintain a website devoted solely to the Fair Fund. The Fair Fund website, located at [www.jpmssecfund.com](http://www.jpmssecfund.com), will make available a copy of the approved Distribution Plan, provide information regarding the claims process and eligibility requirements for participation in the Fair Fund in the form of frequently asked questions, include a copy of a Claim Form and related materials in downloadable form, and such other information covering process or substance that the Administrator believes will be beneficial to Potential Claimants. The Commission staff retains the right to review and approve any material posted on the Fair Fund website.
17. Persons also may obtain a copy of the Distribution Plan on the Commission's public website at <http://www.sec.gov/litigation/fairfundlist.htm>.
18. The Administrator will establish and maintain a toll-free telephone number for Potential Claimants to call to speak to a live representative of the Administrator during its regular business hours or, outside of such hours, to hear prerecorded information about the Fair Fund. The Administrator will advise the Commission staff of the toll-free telephone number. The Administrator will also establish and maintain a traditional mailing address and an email address which will be listed on all correspondence from the Administrator to Potential Claimants as well as on the website.
19. The Administrator will promptly provide a Claims Packet to any Potential Claimant upon request.
20. The Administrator will mail notices to the Administrator's list of banks, brokers, and other nominees, as well as any other institutions identified during the outreach process, that may have records of JPM shareholders and holdings during the Relevant

Period. The Administrator will request that these entities, to the extent that they were record holders for beneficial owners of the Eligible Securities:

- a. notify the respective beneficial owners within fourteen (14) days of receipt of the Administrator's notice so that beneficial owners may timely file a claim; and/or
- b. provide the Administrator a list of last known names and addresses for all beneficial owners for whom the record holders purchased Eligible Securities during the Relevant Period so that the Administrator can communicate with them directly.

21. The Administrator will attempt to locate any Potential Claimant whose mailing is returned as "undeliverable" and will document all such efforts. The Administrator will utilize all means reasonably available, including LexisNexis, to obtain updated addresses in response to undeliverable notices, and forward any returned mail for which an updated address is provided or obtained. The Administrator will make available, upon request by the Commission staff, a list of all Potential Claimants whose Fair Fund Notices have been returned as "undeliverable" due to incorrect addresses and for which the Administrator has been unable to locate current addresses.

## **B. Claims Process**

22. In all materials that refer to the claim filing deadline, the claim filing deadline will be clearly identified as the calendar date one hundred twenty (120) days from the date of the first publication of the Fair Fund Notice, as described in Paragraph 15 above. To avoid being barred from asserting a claim, each Potential Claimant must submit to the Administrator a Claim Form reflecting such Potential Claimant's claim postmarked on or before the deadline. The burden will be upon the Potential Claimant to ensure that his or her Claim Form has been properly and timely postmarked. A claim that is postmarked after the final deadline will not be accepted unless the deadline is extended by the Administrator after consultation with the Commission staff. Any extension will be published on the Fair Fund website.

23. The burden to prove receipt of the claim by the Administrator will be upon the Potential Claimant; therefore Potential Claimants will be instructed to submit their claims in a manner that will enable them to prove receipt of the claim by the Administrator.

24. Claim Forms must be properly filled out per the instructions provided by the Administrator, and must be accompanied by such documentary evidence as the



- Administrator deems necessary or appropriate to substantiate the claim. Without limitation, this information may include third party documentary evidence of purchases and dispositions of Eligible Securities during the Relevant Period, as well as holdings of Eligible Securities at pertinent dates.
25. All claims and supporting representations necessary to determine a Potential Claimant's eligibility to receive a distribution from the Fair Fund under the terms of the Distribution Plan must be verified by a declaration executed by the Potential Claimant under penalty of perjury under the laws of the United States. The declaration must be executed by the Potential Claimant, unless the Administrator accepts such declaration from a Person authorized to act on the Potential Claimant's behalf, whose authority is supported by such documentary evidence as the Administrator deems necessary.
  26. The Administrator will review all claim submissions and determine the eligibility of each Potential Claimant to participate in the Fair Fund by reviewing claim data and supporting documentation (or the lack thereof), verifying the claim, and calculating each Potential Claimant's loss pursuant to the Plan of Allocation. Each Potential Claimant will have the burden of proof to establish the validity and amount of his or her claim, and that they qualify as an Eligible Claimant. The Administrator will have the right to request, and the Potential Claimant will have the burden of providing to the Administrator, any additional information and/or documentation deemed relevant by the Administrator. Any additional information supplied to the Administrator must be postmarked no later than the deadline set for responses to a Determination Notice.
  27. Potential Claimants will be able to contact the Administrator via the toll-free telephone number, an email address for the Administrator, or using traditional mail to request copies of the Claim Form, ask questions about how to complete and file the Claim Form, and inquire about their claim.
  28. The Administrator will provide a Determination Notice to each Potential Claimant who has filed a Claim Form with the Administrator, setting forth the Administrator's conclusions concerning such claim.
  29. The Determination Notice will provide to each Potential Claimant whose claim is deemed deficient, in whole or in part, the reason(s) for the deficiency (e.g., failure to provide required information or documentation). It will also notify the Potential Claimant of the opportunity to cure such deficiency, and provide instructions regarding what is required to do so. Any Potential Claimant with a deficient claim

will have thirty (30) days from the date of the Determination Notice to cure any deficiencies identified in the Determination Notice.

30. In the event the claim is denied, the Determination Notice will state the reason for such denial. Any Potential Claimant seeking reconsideration of a rejected claim must advise the Administrator in writing within thirty (30) days of the date of the Determination Notice. All requests for reconsideration must include the necessary documentation to substantiate the basis upon which the Potential Claimant is requesting reconsideration of their claim.
31. The Administrator will send, as appropriate, a Final Determination Notice to all Potential Claimants who responded to the Determination Notice in an effort to cure a deficiency or to seek reconsideration of a rejected claim. The Administrator will consult with Commission staff regarding claim rejections before the issuance of Final Determination Notices. The Administrator will send such Final Determination Notices by no later than sixty (60) days following receipt of documentation or information in response to the Determination Notice, or such longer time as the Administrator determines is necessary for a proper determination concerning the claim.
32. The Administrator may, in its sole discretion, consider disputes of any nature presented by Potential Claimants, and will consult Commission staff as appropriate. The Final Determination Notice will constitute the Administrator's final ruling regarding the status of the claim.
33. The Administrator will have the authority, in its sole discretion, to waive technical claim deficiencies and approve claims on a case by case basis, or in groups of claims. All determinations made by the Administrator in accordance with the Distribution Plan in any dispute, request for reconsideration, or request to cure a deficient claim will be final and not subject to appeal.
34. The Potential Claimant has the burden of notifying the Administrator of a change in his or her current address and other contact information, and of ensuring that such information is properly reflected on the Administrator's records.
35. The receipt of Eligible Securities by gifts, inheritance, devise, or operation of law will not be deemed to be a purchase of Eligible Securities, nor will it be deemed an assignment of any claim relating to the purchase of such securities unless specifically so provided in the instrument of inheritance. However, the recipient of Eligible Securities as a gift, inheritance, devise or by operation of law will be eligible to file a

Claim Form and participate in the distribution of the Fair Fund to the extent the original purchaser would have been eligible under the terms of the Distribution Plan. Only one claim may be submitted with regard to the same transactions in Eligible Securities, and in cases where multiple claims are filed by the donor and donee, the donee claim will be honored, assuming it is supported by proper documentation.

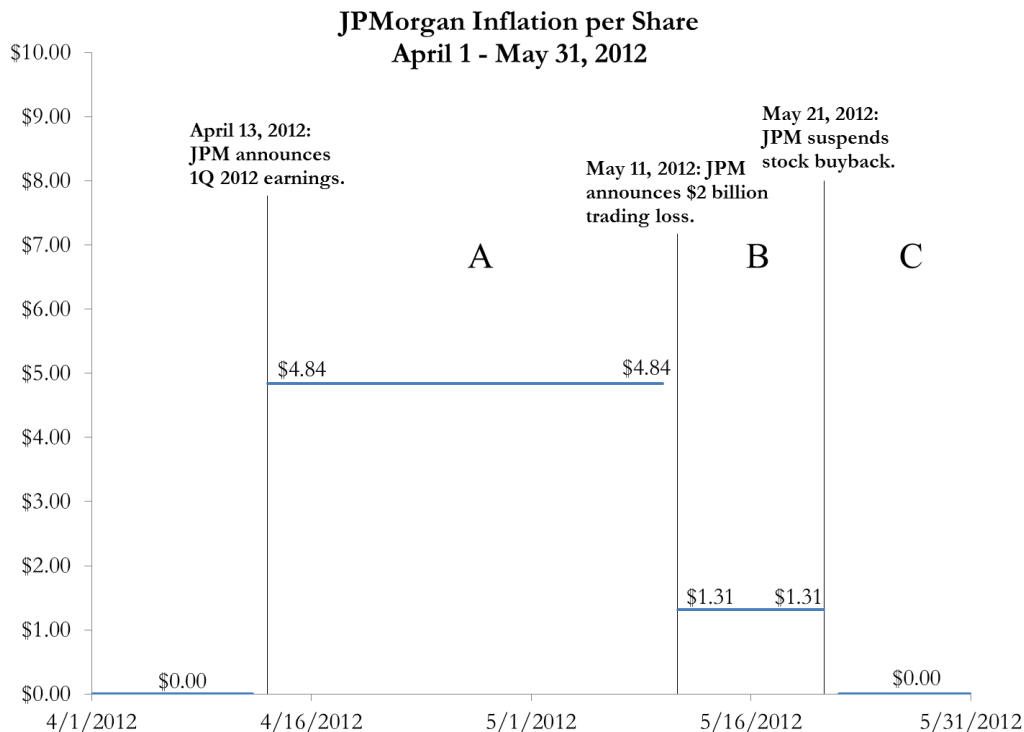
36. To the extent that an Eligible Claimant, his or her representative, heir, or assign requests a distribution check to be issued or reissued in a different name than the Eligible Claimant (e.g., as the result of a name change because of marriage or divorce, or as the result of death), the Administrator will honor such request upon receipt of a written request and supporting documentation, which the Administrator in its sole discretion deems appropriate to substantiate the request.
37. Claims on behalf of a retirement plan covered by Section 3(3) of ERISA, 29 U.S.C. § 1002(3), which do not include Individual Retirement Accounts, and such plan's participants, are properly made by the administrator, custodian or fiduciary of the plan and not by the plan's participants. The Administrator will distribute any payments on such claims directly to the administrator, custodian or fiduciary of the retirement plan. The custodian or fiduciary of the retirement plan will distribute any payments received in a manner consistent with its fiduciary duties and the governing account or plan provisions.

### **C. Plan of Allocation**

38. For purposes of this Distribution Plan, the methodology to be applied in calculating Eligible Loss Amounts was derived from an event study which analyzed the effect of misstatements by the Respondents on market prices of Eligible Securities. The Eligible Loss Amount is calculated to reflect the artificially inflated portion of the per-share price of the Eligible Security that resulted from the misstatements about a) the true amount of JPM's losses in the first quarter of 2012 from positions held in the CIO's "Synthetic Credit Portfolio"; and b) the effectiveness of JPM's disclosure controls and procedures in connection with financial reporting.
39. JPM's statements during the first three quarters of 2012 regarding JPM's trading losses and JPM's disclosure controls and procedures around financial reporting were all considered in determining the Relevant Period. As stated above, the Relevant Period for this Distribution Plan is April 13, 2012 through May 20, 2012. The filing of the Form 8-K by Respondent on April 13, 2012 was the first time investors relied on inaccurate information in making investment decisions, and therefore this date marks the beginning of the Relevant Period. There were no partially corrective

disclosures between April 13, 2012 and May 10, 2012. The filing of the Form 10-Q on May 10, 2012 (after trading had closed), served as a partially corrective disclosure as it addressed the existence of the approximately \$2 billion in trading losses suffered since the start of the second quarter on the CIO positions, and that there could be additional losses. However, the May 10 disclosure understated the size of the trading losses as of quarter end and affirmatively misstated that JPM's disclosure controls and procedures were effective. By May 21, 2012, the market had become aware that the trading losses were significantly greater than what JPM had reported and that the disclosure control issues were being addressed, as a result of the announcement that Respondent was suspending its share buyback program and the reporting by various media outlets of the extent of the losses. Thus, May 20, 2012 marks the end of the Relevant Period.

40. The inflation per share amount is a measure of the inflation in the price of the shares of the Eligible Security on the date of the transaction that is attributable to the misstatements made by JPM. After adjusting for economy-wide and industry-wide effects on share price movements, the inflation per share amounts were determined by isolating the abnormal price movements of the Eligible Security as a result of the three aforementioned disclosures. Below is a graphical depiction of the inflation per share measurement that will be used to calculate Eligible Loss Amounts.



41. The calculation of Eligible Loss Amounts will be determined based on the timing of each Potential Claimant's transactions in Eligible Securities, as follows:

- a. For Eligible Claimants who purchased Eligible Securities between April 13, 2012 and May 10, 2012, inclusive, and held the shares of Eligible Securities through May 20, 2012, the calculation of loss will be the number of shares of Eligible Securities purchased during this period multiplied by \$4.84 per share;
  - b. For Eligible Claimants who purchased Eligible Securities between April 13, 2012 and May 10, 2012, inclusive, and sold their shares of Eligible Securities between May 11, 2012 and May 20, 2012, inclusive, the calculation of loss will be the number of shares of Eligible Securities purchased during this period multiplied by \$3.53 per share; and
  - c. For Eligible Claimants who purchased Eligible Securities between May 11, 2012 and May 20, 2012, inclusive, and held the shares of Eligible Securities through May 20, 2012, the calculation of loss will be the number of shares of Eligible Securities purchased during this period multiplied by \$1.31 per share.
42. Any transaction that does not fall within the parameters described in Paragraph 41 above will be ineligible for a distribution from the Fair Fund, including but not limited to Potential Claimants who purchased and sold Eligible Securities between April 13, 2012 and May 10, 2012. Any Eligible Claimant may have transactions that fall within one or more of these categories, and in this case, his/her Eligible Loss Amount will be calculated consistent with the foregoing, taking into account all transactions in Eligible Securities during the Relevant Period. Transactions in Eligible Securities during the Relevant Period that are pursuant to, or in connection with, a swap, option or other derivative will not be eligible for a recovery.
43. A claimant's Eligible Loss Amount will be determined using the first-in, first-out ("FIFO") method, aggregating the gains and losses for all transactions that occurred during the Relevant Period. To determine Eligible Loss Amounts in accordance with the FIFO method, shares of Eligible Securities sold during the Relevant Period will be matched, in chronological order, first against shares of Eligible Securities held at the beginning of the Relevant Period. Any remaining sales of shares of Eligible Securities during the Relevant Period will be matched, in chronological order, against shares of Eligible Securities purchased during the Relevant Period. Accordingly, the inflation-related proceeds realized from a sale of Eligible Securities during the Relevant Period that were originally purchased prior to the commencement of the Relevant Period will offset any inflation-related losses suffered as a result of any purchases of Eligible Securities made during the Relevant Period. The date of any transaction for purposes of the loss methodology is the "trade" date as distinguished from the "settlement" date. Included below are a few basic examples to illustrate the loss calculation methodology and the FIFO application:

**Example 1**

Transaction Date	Transaction Type	Number of Shares	Inflation Per Share Amount
4/12/2012	Beginning Holding	0	\$0.00
4/25/2012	Purchase	100	\$4.84
5/12/2012	Purchase	100	\$1.31
5/15/2012	Sale	100	-\$1.31

**FIFO Calculation**

Shares	Purchase Date	Sale Date	Eligible Loss Amount
100	4/25/2012	5/15/2012	\$353.00
100	5/12/2012	Held Through 5/20/2012	\$131.00

**Total Potential Eligible Loss Amount****\$484.00****Example 2**

Transaction Date	Transaction Type	Number of Shares	Inflation Per Share Amount
4/12/2012	Beginning Holding	500	\$0.00
4/20/2012	Purchase	100	\$4.84
5/1/2012	Sale	100	-\$4.84
5/16/2012	Sale	100	-\$1.31
5/19/2012	Sale	100	-\$1.31

**FIFO Calculation**

Shares	Purchase Date	Sale Date	Eligible Loss Amount
100	Beginning Holding	5/1/2012	-\$484.00
100	Beginning Holding	5/16/2012	-\$131.00
100	Beginning Holding	5/19/2012	-\$131.00
100	4/20/2012	Held Through 5/20/2012	\$484.00

**Total Potential Eligible Loss Amount****\$0.00**

<b>Example 3</b>			
Transaction Date	Transaction Type	Number of Shares	Inflation Per Share Amount
4/12/2012	Beginning Holding	500	\$0.00
4/15/2012	Sale	500	-\$4.84
4/16/2012	Purchase	500	\$4.84
5/21/2012 Holding	Held	500	\$0.00

<b>FIFO Calculation</b>			
Shares	Purchase Date	Sale Date	Eligible Loss Amount
500	Beginning Holding	4/15/2012	-\$2,420.00
500	4/16/2012	Held Through 5/20/2012	\$2,420.00
<b>Total Potential Eligible Loss Amount</b>			<b>\$0.00</b>

#### **D. Establishment of the Escrow Account**

44. The Administrator will establish an escrow account (the “Escrow Account”) and a distribution account (“Distribution Account”) at a well-capitalized<sup>8</sup> U.S. commercial bank (the “Bank”), to be proposed by the Administrator and not unacceptable to the staff of the Commission. The Escrow Account will be established pursuant to an escrow agreement not unacceptable to the Commission staff. The name of the Escrow Account will be in the following form: Name of Escrow Account, TIN, as custodian for the benefit of distributees of the Fair Fund.

45. During the term of the escrow agreement, any investment of the funds will be with a view toward: first, conserving and preserving the principal; and second, maximizing investment return. The Administrator may invest and reinvest the assets of the Escrow Account only in direct obligations of the United States of America, including United States Treasury securities backed by the full faith and credit of the United States Government. This may also include a AAA-rated United States Treasury money market fund that directly invests 100% in short term United States Treasury securities and obligations, provided however, that the money market mutual funds’ investments in short term United States Treasury securities will not be made through repurchase agreements or other derivative products.

46. The assets of the Fair Fund are subject to the continuing jurisdiction and control of the Commission. Prior to the receipt of any funds in the Escrow Account, the Bank

<sup>8</sup> A well-capitalized bank is a bank that meets the Federal Reserve Board’s definition of “well capitalized” as defined by the Federal Reserve Act Subpart D, 12 C.F.R. § 208.43(b)(1).

will provide the Administrator an attestation, in a form not unacceptable to the Commission staff, that all funds in the Escrow Account will be held for the Fair Fund and that the Bank will not place any lien or encumbrance of any kind upon the funds. The Administrator will be the signatory on the Escrow Account, subject to the continuing jurisdiction and control of the Commission.

47. All interest earned will accrue for the benefit of the Fair Fund, and all costs associated with the Escrow and Distribution Accounts will be paid by the Respondent.
48. Upon transfer from the BFS, the assets of the Fair Fund will be held in the Escrow Account, separate from Bank assets, until the presentation of checks. All Fair Fund checks presented for payment or electronic transfers will be subject to “positive pay” controls before they are honored by the Bank. The “positive pay” system provides protection against fraud arising from counterfeit or altered checks. The “positive pay” system will require, at a minimum, confirmation by the Bank that all checks presented for payment match the identifiers and amounts on the payee list prior to honoring such checks. In each instance, funds will be transferred from the Escrow Account to the Distribution Account on the Bank’s confirmation that a presented check matches the relevant “positive pay” criteria.
49. The Administrator will authorize the Bank to provide the Escrow Account information to the Tax Administrator, including duplicate statements for the Escrow Account, to prepare federal and state tax returns.

#### **E. Distribution of the Fair Fund**

50. The Net Fair Fund will be distributed to Eligible Claimants as provided under the terms of this Distribution Plan. An Eligible Claimant’s Eligible Loss Amount, as determined in accordance with the methodology detailed in the Plan of Allocation in Paragraphs 38-43 above, will be used to determine the amount of their Distribution Payment.
51. The Administrator will distribute the Net Fair Fund to all Eligible Claimants only after all Claim Forms have been processed and all Potential Claimants whose claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to contest or cure pursuant to the procedures set forth herein, and after a Commission Order to Disburse has been issued.
52. Should the total amount of the Eligible Loss Amounts of all Eligible Claimants exceed the Net Fair Fund, the Administrator will distribute the funds to the Eligible



Claimants *pro rata* based upon the ratio of the Eligible Loss Amount of each Eligible Claimant to the aggregate Eligible Loss Amounts of all Eligible Claimants. No Distribution Payment will be made to an otherwise Eligible Claimant unless the amount to be paid equals or exceeds \$10.00.

53. The Administrator may, pursuant to a Commission Order, make one or more re-distributions to Eligible Claimants.<sup>9</sup>
54. In order to disburse the Fair Fund, the Administrator will compile and submit a list of Eligible Claimants (including names, addresses, and Claim IDs) and Eligible Loss Amounts to the Commission staff after mailing the Final Determination Notices to Potential Claimants.
55. The Administrator will also provide a reasonable assurances letter to the Commission staff, representing that the list of Eligible Claimants: a) was compiled in accordance with the approved Distribution Plan; b) is accurate as to Eligible Claimants' names, addresses, and Eligible Loss Amounts; and c) provides all information necessary to make payments to each Eligible Claimant.
56. Upon receipt and review of the Eligible Claimant list, the Commission staff will obtain authorization from the Commission to disburse pursuant to Rule 1101(b)(6). Upon approval by the Commission, the Commission staff will cause the transfer of funds to the Escrow Account. The Administrator will then use its best efforts to commence mailing Distribution Payment checks or effect wire transfers within ten (10) business days of the release of the funds into the Escrow Account. All efforts will be coordinated to limit the time between the Escrow Account's receipt of the funds and the issuance of Distribution Payments.
57. All checks will be issued by the Administrator from the Distribution Account set up at the Bank. All checks will bear a stale date of one hundred twenty (120) days from the date of issuance. Checks that are not negotiated by the stale date will be voided, and the Bank will be instructed to stop payment on those checks, except as provided in Paragraphs 63 to 65 below.

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<sup>9</sup> In the event of a re-distribution, such re-distribution will be limited to those Eligible Claimants that negotiated their initial distribution checks, or received electronic payments, and who would receive at least \$20.00 in the re-distribution.

58. All payments will be preceded or accompanied by a communication that includes, as appropriate:
- a. A statement characterizing the distribution;
  - b. A statement that the tax treatment of the distribution is the responsibility of each Eligible Claimant and that the Eligible Claimant should consult his or her tax advisor for advice regarding the tax treatment of the distribution;
  - c. A statement that checks will be void and cannot be reissued after one hundred twenty (120) days from the date the original check was issued;
  - d. A statement that reissued checks will expire on the later of one hundred twenty (120) days from the date of the original check or sixty (60) days from the date of the reissued check (the “Limit Date”); and
  - e. Contact information for the Administrator for questions regarding the Distribution Payment.
59. A Distribution Payment, either on the face of the check or in the accompanying letter, will clearly indicate that the money is being disbursed from the Fair Fund established by the Commission for the benefit of the injured investors of the Respondent. The letter and other mailings to Eligible Claimants characterizing a Distribution Payment will be submitted to the Commission staff for review and approval.
60. Electronic or wire transfers may be utilized at the discretion of the Administrator to transfer approved Distribution Payments to filers of claims on behalf of twenty (20) or more Eligible Claimants. Wire transfers will be initiated by the Administrator using a two-party check and balance system, whereby completion of a wire transfer will require an authorization by two members of the Administrator’s senior staff.

**F. Post Distribution; Handling of Returned or Un-Cashed Checks**

61. The Administrator will research and attempt to reconcile all returned items due to non-delivery, insufficient addresses, or any other deficiencies.
62. The Administrator will reissue checks to Eligible Claimants upon the receipt of a valid, written request from the Eligible Claimant. Such reissued checks will be void if not negotiated by the Limit Date.
63. In cases where an Eligible Claimant is unable to endorse a Distribution Payment check as written (e.g., name changes, IRA custodian changes, or recipient is deceased) and the Eligible Claimant or a lawful representative requests the reissuance of a Distribution Payment check in a different name, the Administrator will request, and must receive, documentation to support the requested change. If such change

request is properly documented in the sole discretion of the Administrator, the Administrator will issue an appropriately redrawn Distribution Payment check.

64. If any Distribution Payment check is returned as “undeliverable,” the Administrator will use all reasonable commercially available resources to locate the most up-to-date address after receipt of such check. The Administrator will mail a reissued check to the updated address obtained through the database search, subject to the Limit Date.
65. The Administrator will make reasonable efforts to contact Eligible Claimants who have failed to negotiate any Distribution Payment checks over \$500.00 (other than those returned as “undeliverable”) and take appropriate action to follow up on the status of uncashed checks at the request of Commission staff. If appropriate in the sole discretion of the Administrator, the Administrator will have the authority to reissue such checks subject to the Limit Date.
66. A residual within the Fair Fund will be established for any amounts remaining after all assets have been disbursed. The residual may include, among other things, funds reserved for future taxes and for post distribution contingencies, amounts from Distribution Payment checks that have not been cashed, amounts from Distribution Payment checks that were not delivered or accepted upon delivery, and tax refunds. Any funds remaining in the residual after the Commission approves the final accounting will be sent to the Commission for transfer to the United States Treasury.
67. The Administrator will retain all claims materials in paper and electronic form for a period of six (6) years from the transfer of any remaining funds from the Fair Fund Escrow Account to the Commission or the U.S. Treasury. The Administrator will destroy all documents, including documents in any media, upon expiration of this period. In addition, the Administrator will shut down the website, P.O. Box and customer service telephone line(s) established specifically for the administration of the Fair Fund two (2) months after the transfer of any remaining funds to the Commission or to the United States Treasury, or at such earlier time as the Administrator determines with concurrence of the Commission staff.

## **G. Accountings**

68. Pursuant to Rule 1105(f), once the Fair Fund has been transferred from the BFS to the Bank, the Administrator will file an accounting with the Commission during the first ten (10) days of each calendar quarter on a standardized accounting form provided by the Commission staff. The Administrator will file an accounting of all monies earned or received and all monies spent in connection with the administration of the

Distribution Plan. The accounting will also report all monies billed to JPM in connection with the administration of the Distribution Plan during the prior quarter. Upon final distributions to Eligible Claimants pursuant to the procedures described above, and the payment of all taxes, the Administrator will submit a final accounting for approval by the Commission on a standardized form provided by the Commission staff prior to the discharge of the Administrator and cancellation of the Administrator bond.

## **H. Termination of the Fair Fund**

69. The Fair Fund will be eligible for termination and the Administrator will be eligible for discharge after all of the following have occurred:
  - a. a final accounting, in a standard accounting format provided by the Commission staff, has been submitted by the Administrator and approved by the Commission;
  - b. all taxes and other post distribution expenses have been paid; and
  - c. any amount remaining in the Fair Fund has been returned to the Commission for transfer to United States Treasury.
  
70. The Commission staff will seek an order from the Commission to approve the termination of the Fair Fund, the discharge of the Administrator, the cancellation of the bond, and the transfer of any amount remaining in the Fair Fund to the United States Treasury.
  
71. Once the Fair Fund has been terminated and funds, if any, are transferred to the United States Treasury, no further claims will be allowed and no additional payments will be made whatsoever.
  
72. When administering this Distribution Plan, the Administrator, and/or each of their designees, agents and assigns, may rely on: all applicable law; orders issued by the Commission, including orders issued by delegated authority; orders issued by an administrative law judge, if any, appointed in this proceeding; and any records, including records containing investor information, provided by Commission staff.

## **I. Amendments**

73. The Administrator will take reasonable and appropriate steps to disburse the Fair Fund pursuant to the Commission approved Distribution Plan. The Administrator will inform the Commission staff of any changes needed in the approved Distribution Plan. Upon agreement with the Commission staff, the Administrator may implement

immaterial changes to the approved Distribution Plan to effectuate its general purposes. For example, in consultation with the Commission staff, the Administrator may extend any of the procedural deadlines set forth in the approved Distribution Plan.

74. If a change is deemed to be material by the Commission staff, Commission approval of the change is required prior to the implementation of the change by amending the approved Distribution Plan. The Distribution Plan may be amended upon motion by any party, the Administrator, or upon the Commission's own motion.