Markit iTraxx Japan Indices Advisory Committee Terms of Reference

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The Markit iTraxx Japan Indices Advisory Committee (the "Committee") is the advisory group for certain matters related to the iTraxx Japan indices. This document specifies the Terms of Reference of the Committee including its role, structure, membership requirements, and procedures. These Terms of Reference have been amended to comply with the terms of the commitments offered by Markit and adopted by the Commission in its decision in Case AT.39745 of 20 July 2016.

Role of the Committee

The Committee seeks to aid the credit derivatives index market in Japan with the following objectives:

- Review and provide input on changes to the index rules, methodologies and constituents, including but not limited to the following topics:
  - minimum debt outstanding amounts for index constituents;
  - ratings criteria for constituents of the index;
  - liquidity measures used for identifying constituents of the index;
  - possible changes in index roll dates; and
  - exceptions to the rules for constituent selection.
- Provide input on regulatory, legal and compliance issues and general risks with respect to the iTraxx Japan indices.
- Provide input on technical matters in respect of the operation of the iTraxx Japan indices.
- Provide input to assist Markit in the legal, technical and operational administration of the iTraxx Japan indices.
- Provide insight and feedback for the development of new indices and improvements in existing indices.
- Address any relevant request in a timely manner.

The Committee will not:

- discuss, advise on or decide any index licensing decision, including the terms of any such license, taken or to be taken by Markit;
- discuss or advise on commercial aspects of the iTraxx Japan indices or revenue generation proposals;
- discuss or advise on the merits of proposed new exchange traded financial products which reference the iTraxx Japan indices; or
- discuss or advise on the merits of any new exchange or similar platform designed for the trading of products which reference the iTraxx Japan indices.

Committee Membership

Composition of membership

The Committee will comprise of a broad representation of participants in the industry, including both large and smaller dealers (as defined below), buy-side firms and trading, clearing or other platforms. The Committee will provide seats for at least 25 members and shall include the following:

- **Administrator:** Markit will chair the Committee as the official Administrator of the indices.
- **Dealer/Sell-side Members:** Up to 14 seats will be allocated to sell-side firms to represent the views of the Markit iTraxx Japan dealer community. These seats will be allocated as follows:
  - the top 10 largest dealers by trading volumes or other relevant metrics in the iTraxx Japan index or underlying market as identified by the Administrator in the 12 months prior to the date of appointment ("**Large Dealers**")

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  - up to four market makers in either the iTraxx Japan index or the underlying market that are not Large Dealers;

- **Buy-side Participants:** At least six seats will be allocated to non-dealer buy-side firms or other asset managers that trade in or use the iTraxx Japan index.

- **Other:** At least five seats shall be allocated to trading platforms, exchanges or clearing houses. The Administrator may also invite non-member firms that are active participants in the index to be guest observers for certain discussions and meetings, providing prior notice to the Committee. Members may not invite non-members of the Committee to meetings without the prior written consent of the Administrator.

Appointment of Committee members

Markit shall adhere to the following "Appointments Procedure" in order to appoint new members of the Committee.

Markit shall advertise membership of the Committee to encourage a broad range of participation, including by the following methods:

- Publication of a notice on Markit's website specifying a date by which expressions of interest to join the Committee should be submitted to Markit. This date will be at least two weeks after the publication of the notice; and
- Direct communication with prospective member firms where appropriate.

Interested firms should declare any relevant conflicts of interest using Schedule Two of the Appointment Letter (which is provided to all Members and is also available upon request) and provide Markit with a list of their proposed representatives ("Representatives") together with details of their roles and responsibilities.

Committee membership criteria

The Administrator will have the final determination as to which firms are admitted to the Committee as members. However, as a guide, firms shall be considered eligible to become members of the Committee if:

- the firm has entered into a license with Markit in respect of the relevant iTraxx Japan index and acts as a market maker;

- the firm is not required to have a license, but has entered into a trade of a financial product based on the iTraxx Japan index within the preceding six months with a licensed market maker or on a licensed exchange, clearing house or trading platform; or

- the firm is a Trading Venue in accordance with MiFID II or clearing house, in relation to CDS products.

If a member ceases to satisfy the membership criteria, Markit shall be entitled to terminate the membership of the relevant firm and appoint a replacement member in accordance with the Appointments Procedure.

Committee membership waiting list

If, at any time, the number of firms that have expressed an interest in joining the Committee and which meet the membership criteria ("eligible firms") exceeds the number of seats Markit has made available for that type of firm, Markit shall be entitled to choose eligible firms to join the Committee in order to achieve the composition of membership outlined in these Terms of Reference.

Any eligible firms not selected for membership shall be included on a waiting list ("waiting list").

Committee membership term and rotation

With the exception of Committee members to which the transitional arrangements set out in Annex A apply, each member firm shall serve for a period of up to two years.

Following the expiry of each member firm's term, the member firm shall resign from the Committee and shall be replaced as follows:

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- If there are eligible firms on the waiting list, those firms shall be given the first opportunity to fill vacant seats;
- Markit shall advertise for members to fill any remaining vacant seats in accordance with the Appointments Procedure; and
- If insufficient new member firms express an interest in joining the Committee (and meet the membership criteria), the outgoing member firm may be invited to extend its membership term for up to 2 further years.

Frequency of Meetings/Calls

Markit will organize ad-hoc conference calls or in-person meetings when necessary, with a minimum of two such calls or meetings held per annum.

Committee Member Participation

Polling Representative

On certain issues the Administrator may request a poll from members to determine the views of the Committee members. Committee members will not be casting official votes or reaching decisions as the input is purely advisory and indicative. The results of any poll will not be binding on the Administrator.

When applicable, each participating firm shall submit one response per polled question. Each designated member is expected to provide feedback for all polls initiated during a meeting or that result from discussions during the meeting.

Convening the Committee

Any member can submit a written request to convene the Committee to discuss any matters within the scope of these Terms of Reference.

The Administrator may also collect opinions and suggestions from non-member dealers, buy-side firms or industry participants and share them with the Committee during the meetings. All suggestions are non-binding on the Administrator.

Committee Membership Attendance Requirement

Where a member fails to attend at least 75% of all Committee meetings in a given year, such firm will not be considered for committee membership the following year. Additionally, Markit may immediately replace a member if that member misses three consecutive Committee meetings. However, the Administrator retains the right to disregard these requirements given sufficient mitigating circumstances for the absences or in order to maintain the minimum number of members in the Committee and to ensure that the Committee retains the diverse composition of membership in accordance with these Terms of Reference.

Committee Member Confidentiality and Conflicts of Interest

All member organizations are required to sign an Appointment Letter which includes a confidentiality obligation and requires declaration of any conflicts of interest that pertain to the organization or the Representatives.

Administrator Responsibilities

The Administrator will consider all views provided by the Committee when making material decisions and act in such a way that is consistent with the overriding objective of ensuring the continued integrity and relevance of the Indices. However, the views of the Committee and its members are not binding on the Administrator.

The Administrator will provide advance notice to Committee members of convened meetings, a clear agenda of what is to be discussed and a clear timeframe that gives Committee members sufficient opportunity to analyse and comment on the impact of any proposed actions related to the index, except in instances where the nature of an issue requires an urgent determination.

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The Administrator shall ensure that an audio recording is made of all meetings or calls of the Committee, and a written meeting minute will be taken by a qualified lawyer from Markit's in-house legal team outlining what was discussed, the result of any indicative polling done during the meeting, and identifying the members in attendance.

The Administrator will create meeting minutes for all Committee meetings and distribute them to the Committee members.

Copies of minutes and audio recordings, together with the agenda and any papers tabled for discussion at or presented to the Committee shall be retained by the Administrator for a period of 5 years from their creation and may be made available to authorized third parties where required by regulation or legal obligation.

When index rule changes are proposed, the Administrator will specify exactly what these changes entail and when they are intended to apply. Markit may consult the Committee on any index rule changes and may hold non-binding indicative polls if deemed helpful. When publishing index rule changes and other determinations, Markit will clarify that even though the Index Advisory Committee was consulted, all decisions are those of the Administrator and do not necessarily reflect the positions of Committee members.

Confidentiality and Transparency

To ensure transparency, important determinations made following Committee meetings will be promptly communicated to the market by a direct email to the Committee members, a note on the www.markit.com website or in some instances, to be decided by Markit, a press release.

The discussions of the Committee are confidential and the Committee members are not allowed to act on the information until it has been made public by Markit as set out above. If a member has or believes it has, or believes a Representative has, any appointments or arrangements that conflict with, or may conflict with, it's continued membership of the Committee such member will submit a form (Schedule Two of the Appointment Letter) notifying Markit of the actual or perceived conflict of interest. That member will not attend any further discussions around the relevant topic once it has identified a conflict of interest unless advised otherwise in writing by the Administrator.

Further information

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Annex A

TRANSITIONAL ARRANGEMENTS

These transitional arrangements shall apply in respect of the first members appointed to the Committee in accordance with the Appointments Procedure after 1 October 2016 (the "Initial Members").

On the first anniversary of the appointment of the Initial Members, at least 50% of the Initial Members of the Committee shall volunteer for rotation and shall be replaced by new members appointed in accordance with the Appointments Procedure.

If insufficient Initial Members volunteer for rotation, a random ballot shall be held to select additional firms for rotation.

The remaining 50% of Initial Members shall serve for a further year (i.e. for the full 2-year term from appointment).

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