

Markit iTraxx[®] Australia Index Rules

March 2018

Contents

Index Overview	3
iTraxx® Australia Index.....	3
Roll Dates	3
Rule Revision	3
Business Days	3
Maturity	4
Weighting.....	4
Exchange Rates	4
Relevant Rating.....	4
DTCC Report	4
Markit iTraxx Australia Liquidity List.....	4
Eligibility Criteria	4
Ranking.....	5
Markit iTraxx Australia Additional Entity List	5
Eligibility Criteria	5
Ranking.....	5
Creating the iTraxx Australia Index Series	6
Publication of Provisional iTraxx Australia Index	6
Final Review of Constituent List	7
Reference Obligation.....	7
Coupon Levels and Recovery Rates	7
Changes to Reference Entity Names.....	7
Disclaimer	7
Further Information	8

Index Overview

iTraxx® Australia Index

Markit Credit Indices are indices that track different segments of the debt markets (corporate, municipal and sovereign debt bonds and/or loans) across different regions (Europe, Asia, North America and Emerging Markets) and are referenced in various tradable products such as credit default swaps (“CDS”), and exchange listed products.

Markit Credit Indices are made up of the most liquid entities referenced in the relevant single-name CDS market. The indices roll on a semi-annual basis, and the composition of each new series (a new index) is established based on a transparent set of rules designed to ensure that the current series tracks the most liquid instruments in the relevant market.

The iTraxx Australia Index is composed of twenty five (25) liquid Australian entities with investment grade credit ratings that trade in the CDS market or have significant domestic bond issuance.

The iTraxx Australia Index is a tradable index that allows market participants to take a view on the overall credit quality and direction of the underlying basket by trading one instrument.

All iTraxx Indices are owned, managed, compiled and published by Markit Group Limited.

Administrator

Markit is the administrator of the iTraxx Australia index. The composition of this index shall be determined by the Administrator in accordance with the rules and methodologies set forth in this document (the “Rules”). The Administrator has sole responsibility to interpret the Rules.

The Administrator shall make determinations and perform regarding the indices pursuant to the Rules except as follows:- Upon the occurrence of an event that the Administrator determines materially impacts the integrity of one or more type of the relevant Index-related transaction[s], including but not limited to trading interruptions; market instability; and/or force majeure events, the Administrator may at its sole discretion determine that it is that it is appropriate to depart from the methodologies, timelines and/or procedures set forth in the Rules in order to obtain a result that preserves the economic intent of such iTraxx Australia index. Where the best course of action is not clear Markit will consult the Index Advisory Committee for guidance prior to making any such determination. The determined course of action will be documented, communicated to all stakeholders and published on the Markit website www.markit.com/Product/Indices under the iTraxx News page.

In the event that any critical input required in the construction of a new series of the index is not available, Markit will confer with the Index Advisory Committee and publish the outcome of any material change as well as any decisions taken at Markit’s discretion that have led to a methodology change.

Roll Dates

iTraxx Australia will begin on March 20 (or the Business Day immediately thereafter in the event that March 20 is not a Business Day) and September 20 (or the Business Day immediately thereafter in the event that September 20 is not a Business Day) of each calendar year (each such date, a “Roll Date”).

Rule Revision

The rules for the index are reviewed semi-annually prior to the index roll. Decisions made following an index rule review will be communicated to stakeholders via e-mail and published on the Markit website. The publication will contain an overview and timelines for implementation of such rules changes.

Business Days

Unless otherwise specified, all references to “Business Days” in this document mean days on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Sydney, Australia. All times referred to in this document, refer to local time in Sydney unless otherwise specified.

Maturity

For iTraxx Australia the Index that has a Roll Date of March 20 shall be issued with the maturity date of June 20 occurring 5 years, following the Roll Date. Each Index that has a Roll Date of September 20 shall be issued with the maturity date of December 20 occurring 5 years following the Roll Date.

Weighting

Each entity in iTraxx Australia Index will have equal or approximately equal weightings. The weighting of each entity will be equal to (i) one divided by (ii) the number of entities in such index, expressed as a percentage with three decimal places (e.g., 4.000%). In the case where rounding is necessary to express the weightings in this manner, the entities shall be arranged in alphabetical order, with the weightings of the entities at the top of the list being rounded up to the nearest one-thousandth of a percent and the weightings of the entities at the bottom of the list being rounded down to the nearest one-thousandth of a percent until the weightings of all entities have been rounded and the aggregate of the weightings equals exactly 100%.

Exchange Rates

The exchange rates used to convert any non-AUD denominated debt amount to AUD will be the 16:00 London rate from WM Reuters for the relevant currency as of the last Business Day of the month prior to the month in which the Roll Date occurs.

Relevant Rating

Determinations of constituents for both the iTraxx Australia Index will be based, in part, on the “Relevant Rating” of each entity in consideration for inclusion or exclusion. For the purposes of these rules Relevant Rating” means the lowest of:

1. The lowest of an entity's Issuer Rating, Senior Unsecured Debt Rating, and Corporate Family Ratings for Moody's;
2. The lower of an entity's Long-term Issuer Credit Rating and Senior Unsecured Debt Rating for S&P; or
3. The lower of an entity's Issuer Default Ratings and Senior Unsecured Debt Rating for Fitch.

All entities must be rated investment grade. Entities rated below BBB-/ Baa3 are excluded. Fitch, Moody's and S&P ratings are considered. If an entity is rated by two or more agencies, the lowest rating is considered.

Rating changes that could affect the index membership are taken into account if Markit is notified of such change prior to 5:00 pm London time on the last Business Day of the month prior to the month in which the Roll Date occurs.

DTCC Report

As part of the Index Roll process, the Administrator will create the iTraxx Australia Index (as defined below) after each publication of the 6 month Analysis Top 1,000 Single Names report published by DTCC or any successor report thereto published by DTCC, or if such report is no longer available, successor report that measures liquidity within the CDS market (as applicable, the “DTCC Report”).

Markit iTraxx Australia Liquidity List

The iTraxx Australia index is composed of twenty five (25) liquid Australian entities with investment grade credit ratings that trade in the CDS market or have significant domestic bond issuance. To be eligible for inclusion in the iTraxx Australia index, an entity must be part of the iTraxx Australia Liquidity List or the Additional Entity List.

Eligibility Criteria

Using the average weekly trading activity measured in the then-current DTCC Report, the Administrator will create a list by determining all entities for which the following criteria are satisfied:

- Entities must have the DC Region of “Australia NZ” on the applicable DTCC liquidity list
- Sovereign entities are excluded from the index
- No more than 5 bank entities may be included in the index
- Entities must demonstrate trading activity greater than zero during the last eight weeks preceding the last Friday of the month prior to month in which the Roll Date occurs, as measured in the DTCC Report.
- Entities must have a minimum of AUD 150,000,000 publicly traded debt outstanding in a currency that is deliverable into an Australian CDS Contract.

All entities must be rated investment grade by Fitch, Moody's or S&P. This translates into a minimum rating of Baa3 from Moody's and BBB- from Fitch or S&P. If an entity is rated by two or more agencies, the lowest rating is used.

Ranking

Those entities meeting the above criteria are ranked from the most liquid to the least liquid, based on the notional market risk activity, as listed in the relevant DTCC Report. To the extent that two or more entities are determined to be equally liquid based on notional, the Administrator shall rank such entities from the most liquid to the least liquid based on (i) the number of trades specified in the relevant DTCC Report, or (ii) if an equal number of trades are specified, in alphabetical order (such overall completed rankings, the “iTraxx Australia index”, and such overall completed list, the “iTraxx Australia Liquidity List”). A maximum of 25 entities will be selected to form the iTraxx Australia Liquidity List.

Markit iTraxx Australia Additional Entity List

This List is comprised of all eligible Australian corporate bond issuers included in the below indices (Additional Entity List Universe):

- iBoxx AUD Large Cap Overall
- iBoxx USD Overall
- iBoxx GBP Overall
- iBoxx EUR Overall

These issuers are ranked by the aggregated sum of issued notional included in these benchmark cash indices. The Additional Entity List is used in addition to the iTraxx Australia Liquidity List to carry out the selection process.

Eligibility Criteria

The following Australian corporate bond issuers are not eligible for inclusion on the Additional Entity List and are *excluded*:

- Entities that are guaranteed or controlled by (directly or indirectly), or guarantee or control (directly or indirectly) in either case, an “Affiliate”, that has a higher ranking on the Additional list or is on the Liquidity List.
- Entities that do not have publicly traded AUD denominated debt outstanding of at least AUD 150,000,000
- Bank entities
- Below investment grade rated as stipulated by Relevant Rating criteria
- Entities in the Additional Entity List Universe that do not have a minimum amount of debt outstanding equivalent to AUD 750,000,000.

Ranking

Those entities meeting the above criteria are ranked according to the aggregated sum of issued notional included in the Additional Entity List Universe. To the extent that two or more entities are determined to be equally liquid based on notional, the Administrator shall rank such entities in alphabetical order.

Creating the iTraxx Australia Index Series

Prior to the Publication Date (as set forth below) for a new series of the iTraxx Australia index, the Administrator will create the new iTraxx Australia index by applying the below process to create the iTraxx Australia index.

If less than 25 names are available in the iTraxx Australia Liquidity List, follow Step 1A. If 25 names are available follow Step 1B. At each roll, only one of the steps 1A or 1B as outlined below will be followed.

Step 1A:

If less than 25 names are available for iTraxx Australia from the iTraxx Australia Liquidity List, the missing number of entities will be picked from the “Additional Entity List”.

- The Entities from the Additional Entity List will be selected in iterations until the full 25 entities are achieved.
- At each iteration the sector weights of iBoxx AUD (ex Banks) are compared to iTraxx Australia (ex Banks). The highest ranked entity from any of the underweight iTraxx Australia sectors is selected from the “Additional Entity List” and included in iTraxx Australia.

Step 1B:

If 25 eligible names have been identified from the iTraxx Australia Liquidity list, the below process is followed until up to a maximum of two of the lowest ranking entities in the iTraxx Australia Liquidity List have been replaced with names from the Additional Entity List.

- An iterative process is followed for the iTraxx Australia sectors identified to be underweight. Entities selected from the Additional Entity List will be selected in iterations until a maximum of 2 entity replacements have been made.
- At each iteration the sector weights of iBoxx AUD Large Cap (ex Banks) are compared to those of iTraxx Australia (ex Banks). The highest issuing entity from any of the underweight iTraxx Australia sectors is selected from the “Additional Entity List” and included in iTraxx Australia.
 - In the event that no entity in the iTraxx Australia Additional Entity List is available for the underweight iTraxx Australia sectors, no replacements are made.

The sector weightings within the iBoxx benchmark cash indices and iTraxx Australia indices are mapped as follows to facilitate weighting comparison between the two indices:

iBoxx Sectors	Equivalent iTraxx Sector
Financials (excl. Banks)	FINANCIALS (excl. Banks)
Industrials	INDUSTRIALS
Consumer Goods	CONSUMER SERVICES
Consumer Services	CONSUMER SERVICES
Technology	TECHNOLOGY
Telecommunications	TELECOMMUNICATIONS SERVICES
Basic Materials	BASIC MATERIALS
Utilities	UTILITIES
Oil & Gas	ENERGY

Publication of Provisional iTraxx Australia Index

The resulting list of entities after the steps above (the “Provisional iTraxx Australia”) will be published on Markit’s public web site for comment no later than (7) Business Days prior to the Roll Date. The Administrator will review comments received and determine whether amendments are necessary. The Administrator welcomes public comment, but is not required to follow or otherwise address any comment received. The Administrator will publish the expected name changes (if any) on its public website as it determines such changes may be required. The comment period will end four (4) Business Days prior to the Roll Date. The draft and final annexes for the iTraxx Australia index will be published as set forth in the 'Publication of Annex' section

Final Review of Constituent List

On any day prior to the date of publication of a final index annex, the Administrator may determine that any entity that is intended to be included in the relevant index fails any of the iTraxx Australia index Criteria then such entity shall be excluded from the iTraxx Australia index.

If the Administrator determines that any entity shall be excluded from the iTraxx Australia Index in accordance with the preceding paragraph, then the highest ranked entity in the iTraxx Australia Liquidity List as applicable that has not already been included in the iTraxx Australia Index, as applicable, shall be added to the new iTraxx Australia Index as a replacement entity

Where a determination with regard to constituent selection is made by the Administrator which involves discretion and/or expert judgment, Markit will consult the Index Advisory Committee for guidance. Such determinations will be documented, communicated to stakeholders via e-mail and published on the Markit website www.markit.com/Product/Indices under the iTraxx News page. Where similar determinations are made, precedents set by previous decisions will be considered across all CDS indices.

In the unlikely instance an inaccuracy is not caught and resolved prior to the publication of the final list, or if input data used in the constituent selection process is revised retrospectively, Markit will review the impact on the affected indices. In order to determine whether to restate the final list or any index parameters, Markit will consult with the Index Advisory Committee to determine the impact of such action.

If it is decided to update the Final List or any related parameters, the reason for such revision together with revised material will be published. In addition, Markit will compile an incident report to summarize the incident, the root cause, and set forth remedial actions to avoid such an error in the future, where such remedial actions are applicable.

Publication of Annex

No later than three (3) Business Days prior to the Roll Date of a iTraxx Australia Index, the Administrator will publish a draft of the annex for such iTraxx Australia Index, along with the weighting and final reference obligations (if applicable) for each entity. The final annex for iTraxx Australia index will be published after 5:00 p.m. at least one Business Day immediately preceding the Roll Date of the Indices.

Reference Obligation

The reference obligations for the reference entities are obtained from Markit Group's Reference Entity Database (RED) in conjunction with input from iTraxx Australia market participants. For bank entities senior reference obligations are used.

Coupon Levels and Recovery Rates

At least two business days preceding the roll date, a telephone poll is initiated by Markit to determine the coupons and recovery rates for each index. Coupon levels are rounded to the nearest 5 basis points and recovery levels to the nearest 5%.

Changes to Reference Entity Names

If a reference entity changes its legal name, the relevant index annexes containing this reference entity will be updated to the new name (without publishing a new version of the annex). The effective date of the name change (i.e. the date upon which the reference entity changed its name) is specified in the updated annex.

Disclaimer

The Administrator does not undertake any duty of care and will not be liable to any party to a transaction referencing a iTraxx Australia Index for any form of damages, whether direct, indirect, special, consequential or otherwise, that might arise in connection with the Administrator's performance of its duties under the Rules, except in the case of the Administrator's gross negligence, fraud or willful misconduct.

Further Information

Markit Group Limited

4th Floor,
Ropemaker Place
25 Ropemaker Street
London,
EC2Y 9LY

Tel: 00800 6275 4800

E-mail: MK-Creditindices@markit.com

Internet: www.markit.com

Licenses and Data

Markit (through Markit Indices Limited, Markit North America, Inc. and Markit Group Holdings) owns all iTraxx, iTraxx SovX and CDX data and indices and the intellectual property rights therein. A license is required from Markit Group Limited. to create and/or distribute any product that uses, is based upon or refers to any iTraxx, iTraxx SovX and CDX index or iTraxx, iTraxx SovX and CDX data.