

Markit iTraxx® Asia ex- Japan Index Rules

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Index Overview

iTraxx[®] Asia ex-Japan 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”),

Markit Credit Indices are made up of the most liquid entities 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 Asia ex-Japan index is composed of forty (40) liquid Asian (excluding Japanese) entities with primarily investment grade credit ratings that trade in the CDS market.

The iTraxx Asia ex-Japan 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 Indices Limited.

Administrator

Markit is the administrator of the iTraxx Asia ex-Japan index. The composition of this index is 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 all actions 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 iTraxx Asia ex-Japan Index-related transactions, including but not limited to trading interruptions; market instability; and/or force majeure events, the Administrator, acting in a commercially reasonable manner, may at its sole discretion determine 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 Asia ex-Japan. 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 Asia ex-Japan index 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”).

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 Hong Kong. All times referred to in this document, refer to local time in Hong Kong unless otherwise specified.

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.

Maturity

For iTraxx Asia ex-Japan index 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. The 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 Asia ex-Japan 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., 2.500%). 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%.

Relevant Rating

Determinations of constituents for the iTraxx Asia ex-Japan 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 highest rating of the following:

1. Higher of the Issuer Rating, Senior Unsecured Debt Rating, and Corporate Family Ratings for Moody's;
2. Higher of the Long-term Issuer Credit Rating and Senior Unsecured Debt Rating for S&P; and
3. Higher of the Issuer Default Ratings and Senior Unsecured Debt Rating for Fitch.

Besides the treatment of unrated current constituents described below, all entities should have an investment grade Relevant Rating. Entities rated below BBB-/ Baa3 are excluded.

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.

Index Roll Process

As part of the Index Roll process, the Administrator will create the iTraxx Asia ex-Japan 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”). The most recent iTraxx Asia ex-Japan Liquidity List and the criteria detailed in this document will be used to create the new series of the iTraxx Asia ex-Japan index.

General Criteria

The iTraxx Asia ex-Japan index is composed of forty (40) liquid Asian (excluding Japanese) entities with primarily investment grade credit ratings that trade in the CDS market. To be eligible for inclusion in the iTraxx Asia ex-Japan index, an entity on the iTraxx Asia ex-Japan Liquidity List must satisfy the following criteria (the “iTraxx Asia ex-Japan Criteria”):

- For clarification the Liquidity list used for membership determination will consist of the names from the DTCC 6 Month Analysis Top 1,000 Single Names report ranked according to trading activity. If less than 40 eligible Asia Ex-Japan names are available from the DTCC list, additional names received as part of the liquidity poll are added below these names on this Liquidity list, ranked by the aggregate volumes received from market participants.
- If any entity in the current Index is rated below investment grade it will be excluded from the new series as part of the creation of Liquidity List process below, however if an entity in the current index is no longer rated by Moody's, S&P or Fitch then providing the average CDS trading spread of such entity is within 200% of the median spread of the qualifying investment grade constituents of the forthcoming index, it will be eligible for the new iTraxx Asia ex-Japan Liquidity List.
 - For this determination the Markit End of Day Composite CDS Spreads ^[1] at the 5 Year tenor are used. The average spread over the last 10 Business Days of the month prior to the month in which the Roll Date occurs are calculated for each entity

^[1]Where credit default swap spreads are required to determine eligibility for inclusion, the “Markit CDS End of Day” service will be used. Markit receives contributed CDS data from market participant's official books of record. This data undergoes a rigorous cleaning process before being aggregated to form the “Markit CDS End of Day” Composite

Creation of the Liquidity List

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 be incorporated in Asia (excluding Japan)
 - 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 an investment grade Relevant Rating as defined above. Entities with a Relevant Rating below BBB-/Baa3/BBB- (Fitch/Moody's/S&P) are excluded.
- Ranking those entities meeting the above criteria, 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 notionals, 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 Asia ex-Japan index”, and such overall completed list, the “iTraxx Asia ex-Japan Liquidity List”).
- If the total number of eligible entities on the DTCC Report does not reach 40 entities, Markit will request the iTraxx Asia ex-Japan index Market participants to submit Additional entities for Inclusion in the iTraxx Asia ex-Japan Liquidity List.
- Additional entities for the iTraxx Asia ex-Japan Liquidity List will comprise of the additional entities market participants would like to include in the new series of the respective indices on the basis of trading volumes over the past 12 months.
- Markit aggregates all votes from the additional entities to be added to the iTraxx Asia ex-Japan Liquidity List. All entities in this list are ranked according to the number of votes in descending order.

- Entities are selected from the sorted additional Inclusion List for membership in the new series of the index and added to the bottom of the iTraxx Asia ex-Japan Liquidity List until the total number of names in the iTraxx Asia ex-Japan Liquidity List is 40.

Creation of the new iTraxx Asia ex-Japan Index Series

At the time of an index roll, the index composition is initially set to be the same as the previous series, the Administrator will then identify entities which match the Roll Exclusion criteria below and remove them from the existing index. The Administrator will then add new and replacement entities by applying the Roll Inclusion criteria to create the new index. The inclusion and exclusion processes are as described below.

Roll Exclusions

No later than eight (8) Business Days prior to a Roll Date, the Administrator will create list of entities in the current index that no longer satisfy the General Criteria set forth above or match the exclusion criteria set forth below:

- **Corporate Events.** The Administrator may determine, in its sole discretion and based on publicly available information, that a corporate event has occurred or been announced in relation to any current constituent that renders such current constituent unsuitable for inclusion. For purposes of this paragraph,
 - (i) "Corporate Events" include mergers, acquisitions or other similar events and
 - (ii) "Publicly available information" includes, but is not limited to, information from public filings, financial reports, or information published in the main sources of business news in the country in which the corporate entity is organized and any other internationally recognized published or electronically displayed news services.
- **Credit Events.** The Administrator may determine at its sole discretion that a current constituent is no longer suitable for inclusion in the Index if one of the following occurs on or after the previous Index Roll Date with respect to any current constituent:
 - (i) a notice is published on the ISDA Credit Derivatives Determinations Committee webpage (<http://dc.isda.org/>, or any successor webpage thereto) announcing that a request relating to a potential Credit Event (as defined in the Credit Definitions) in respect of such current constituent has been accepted by the relevant Credit Derivatives Determinations Committee (as defined in the Credit Definitions, the "DC"); provided that as of 5:00 p.m. Tokyo time on the first business day following the day on which the relevant DC is required to convene to consider such request under the DC rules (such timeline to be determined without regard to any ability of the DC to amend the published timetables set forth in the DC rules immediately prior to such request), a DC No Credit Event Announcement (as defined in the Credit Definitions) has not occurred and no announcement to the effect that such request has been dismissed, withdrawn, or rejected by the relevant DC has been published on such webpage; or
 - (ii) a DC Credit Event Announcement (as defined in the Credit Definitions) occurs with respect to such current entity. As set forth in these Rules, the Administrator may consider any information and make any determinations necessary under this Roll Exclusion to obtain a result that preserves the integrity of the Index.
- **Liquidity Based Exclusion;** Existing entities in the current index will be excluded from the new index if they are either not part of the Liquidity List or if more than 50 entities are available on the Liquidity List, and they are ranked at #51 or lower..
- **Rating Based Exclusion;** Any entity not achieving the relevant rating will be deemed no longer eligible, however if a constituent is no longer rated by any of the following Moody's, S&P or Fitch its exclusion will be judged according to the spread criteria outlined in the General Criteria section.

These entities will be replaced by the most liquid eligible new entities from the Liquidity List subject to the inclusion criteria set forth below. Current entities that meet the criteria set forth above are "Roll Exclusions."

Roll Inclusions

Using the Liquidity List the Administrator will identify entities that match the criteria below to create a list of entities that are not current constituents, that are not subject to any Roll Exclusion criteria above, and that satisfy the General Criteria:

- **Liquidity Based Inclusion;** New entities ranked #20 or higher are included automatically if this inclusion causes the overall entity list to exceed 40 the least liquid entities from the overall 40 list are excluded.
- If an existing constituent has been excluded from the new index due to the Roll Exclusions above, the entity will be replaced by the most liquid new entity from the Liquidity List.
- This process is repeated until all Roll Exclusions have been replaced and the index has 40 entities.

Publication of Provisional iTraxx Asia ex-Japan index

The list of entities resulting after the steps above (the “Provisional iTraxx Asia ex-Japan index”) will be published on Markit’s public web site for comment no later than seven (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 Asia ex-Japan index will be published as set forth in the 'Publication of Annex' section below.

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 Asia ex- Japan index Criteria then such entity shall be excluded from the iTraxx Asia ex-Japan index.

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

- If the new entity cannot be selected from the iTraxx Asia ex-Japan Liquidity List Markit will request the iTraxx Asia ex-Japan index Market participants to submit additional entities for Inclusion to the iTraxx Asia ex-Japan Liquidity List.
- Additional entities for the iTraxx Asia ex-Japan Liquidity List will comprise of the additional entities market participants would like to include in the new series of the respective indices on the basis of trading volumes over the past 12 months.
Markit aggregates all votes from the additional entities to be added to the iTraxx Asia ex-Japan Liquidity List. All entities in this list are ranked according to the trading volume in descending order.
- Entities are selected from the sorted additional Inclusion List for membership in the new series of the index and added to the iTraxx Asia ex- Japan Liquidity List until the total number of names in the iTraxx Asia ex-Japan Liquidity List is 40.

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 Asia ex-Japan Index, the Administrator will publish a draft of the annex for such iTraxx Asia ex-Japan Index, along with the weighting and final reference obligations (if applicable) for each entity. The final annex for iTraxx Asia ex-Japan index will be published after 5:00 p.m. on the Business Day immediately preceding the Roll Date of the Indices.

Disclaimer

The Administrator does not undertake any duty of care and will not be liable to any party to a transaction referencing the iTraxx Asia ex-Japan 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.

Reference Obligations

The reference obligations for the reference entities are obtained from Markit Group Limited's Reference Entity Database (RED) in conjunction with input from iTraxx Asia ex-Japan market participants.

Coupon Levels and Recovery Rates

On the second business day 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 the Reference Obligations

In the event that Markit receives requests from three or more market participants that the reference obligation of an entity should be replaced, Markit will identify one new reference obligation for such entity, based on RED and on input from iTraxx market participants. A poll is then initiated by Markit. If a majority of the market participants participating in the poll agrees that such replacement should be made, a new annex will be published by Markit Group, which will be identical to the previous annex, save for the fact that the reference obligation for such entity will be as agreed in the poll.

Further information

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