

Markit CDX Emerging Markets Index Rules

August 2016

Contents

Index Overview.....	3
Administrator.....	3
Roll Dates	3
Maturity	3
Index Roll Process.....	4
CDS Liquidity.....	4
Creation of Liquidity List	4
Selection of Constituents	4
Individual constituent weighting.....	5
Publication of Provisional CDX EM Index	5
Final Review of Constituent List	5
Selection of Reference Obligation	5
Publication of Annex.....	6
Coupon	6
Rule Changes	6
Disclaimer	6

Index Overview

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 contracts. The indices are made up of some 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 enable the current series to track the most relevant instruments in the credit market.

Markit CDX indices are tradable products that allow market participants to take a view on the overall credit quality and direction of the underlying basket in one tradable instrument.

The Markit CDX Emerging Markets Index (“CDX EM” or the “Index”) is composed of fifteen (15) sovereign reference entities that trade in the CDS market.

Administrator

All CDX Indices are owned, managed, compiled and published by Markit (the “Administrator”). The composition of CDX EM is determined by the Administrator in accordance with the rules and methodologies set forth in this document (the “Rules”).

The Administrator has sole discretion when interpreting the Rules. The Administrator shall make determinations and perform all actions regarding the Index pursuant to the Rules. Notwithstanding this, if the Administrator determines that an event has had a material impact on the integrity of one or more Index-related transactions, including but not limited to trading interruptions, market instability and/or force majeure events, the Administrator, acting in an independent and reasonable manner, may determine that it is appropriate to depart from the methodologies, timelines and/or procedures set forth in the Rules to obtain a result that preserves the economic intent of CDX EM.

Roll Dates

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

All references to “Business Days” in this document refer to business days on which the Securities Industry and Financial Markets Association declares the fixed income markets in New York to be open. All times referred to in the Rules are local time in New York, New York.

Maturity

The composition of CDX EM is the same for all maturities for which a fixed rate is published.

- Each CDX EM Index that has a Roll Date of September 20 shall be issued with the maturity date of December 20 occurring 5 years and 10 years following the Roll Date.
- Each CDX EM Index that has a Roll Date of March 20 shall be issued with the maturity date of June 20 occurring 5 years and 10 years following the Roll Date.

Index Roll Process

CDS Liquidity

As part of the Index Roll process, the Administrator will create a Liquidity List, as detailed in the “Creation of Liquidity List” section below, after each publication of the *6 Month Analysis Top 1,000 Single Names* report published by DTCC or any successor report thereto, or if such report is no longer available, an appropriate alternative report that measures liquidity within the CDS market (collectively, the “DTCC Report”). The most recent Liquidity List and the section “Selection of Constituents” in this document will be used to determine the composition of the new CDX EM Index, including the addition and removal of names from the current CDX EM Index.

Creation of Liquidity List

The constituents for the Index will be selected on the basis of CDS volumes, as published in the two latest DTCC Reports. The volumes used will be sum of CDS volumes from these two reports for each reference entity, resulting in twelve months of data being considered.

Reference entities that are classified as sovereigns in the DTCC Report will then be ranked in order of their trailing twelve month CDS volumes.

Selection of Constituents

The eligibility criteria described below will then be applied to arrive at the final list of reference entities that are eligible for inclusion in the Index (“Eligible Reference Entities”):

- Only those countries that have a country score of less than 60 under the latest Markit iBoxx Country Classifications will be eligible for the Index. The country score is reviewed annually by Markit and is used to classify countries as developed or emerging markets.
- Countries where regulations restrict naked shorting of sovereign debt will be excluded.
- At least 3 countries per region must be identified, to ensure sufficient diversity in the Index. The regions for the Index would be Asia, EEMEA (Eastern Europe, Middle East, Africa), and Latin America
- In order to be eligible for the Index, countries must have issued at least one bond with either a minimum of 500M in sovereign or 250M in sub-sovereign par amount outstanding, denominated in USD, to ensure there is sufficient external debt in the cash market.

The top 15 Eligible Reference Entities in order of CDS volume, after the above criteria have been applied, will be identified for inclusion in the CDX EM Index.

A reference entity will remain in the Index as long as its CDS volumes place it within the top 25 names in the list of Eligible Reference Entities. If a reference entity no longer has volumes within the top 25, then the entity will be removed and replaced with the entity with the highest CDS volume that is not currently in the Index, as long as that replacement name is in the top 25 names in the list of Eligible Reference Entities.

If a reference entity not currently in the Index has CDS volumes that place it within the top 10 names in the list of Eligible Reference Entities for two consecutive rolls, then that entity will be added to the Index during the second roll. This will cause the entity in the Index with the lowest CDS volumes to be removed.

Individual constituent weighting

The weighting for individual constituents would be assigned using CDS volumes from the two latest DTCC Reports.

The DTCC volumes for all 15 expected constituents of the Index would be aggregated. Weights for individual countries would be assigned based on the proportion of their individual volumes in relation to the aggregate volume. The individual weights will be rounded to the nearest whole percentage.

Constituent weightings are subject to a maximum weight of 15% and a minimum weight of 3%.

If a constituent initially is assigned a weight over 15%, the excess weight will first be distributed to any constituents with less than a 3% weight. If there is additional excess weighting available, it will be distributed to other reference entities within the same region based on the proportion of the weights of these other entities.

If implementing the minimum weighting of 3% causes the Index weight to total over 100%, the surplus will be eliminated by reducing the weight of the entities that show the most increase in weight from the current CDX EM series. If more than one entity ties in terms of the most increase in weight between the current CDX EM series and the next, then the weight will be reduced from the name with the lowest CDS volumes from the Liquidity List.

Publication of Provisional CDX EM Index

The resulting list of entities and their weighting from the “Selection of Constituents” and “Individual Constituent Weighting” process set forth above (the “Provisional CDX EM 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 comments from the public, but is not required to follow or otherwise address all comments received. Once the Administrator’s determinations have been made, the Administrator will publish the expected name and/or weighting changes (if any) on its public website. The comment period will end three (3) Business Days prior to the Roll Date. The Draft Annex of the CDX EM Index will be published after the end of the comment period, as detailed 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, should the Administrator determine that any entity that is intended to be included in the relevant index fails any of the criteria specified in the “Selection of Constituents” section, that entity shall be excluded from the CDX EM Index.

If the Administrator determines that any entity shall be excluded from the CXD EM Index in accordance with this Final Review of Constituent List, then the highest ranked entity in Liquidity List that has not already been included in the index shall be added to the new CDX EM Index as a replacement entity.

Selection of Reference Obligation

After the composition of the CDX EM Index for a Roll Date has been finalized, the Administrator will identify a single reference obligation for each entity in the index, senior in priority of payment, based on the Reference Entity Database ("RED").

In the event that no reference obligation that is senior in priority of payment is listed in RED for an entity in the Index, the Administrator will select in its sole discretion the most liquid of the senior in priority of payment debt obligations of such entity based on the market risk activity in relation to such entity and such obligations during the six month period prior to the last Friday of (i) the February preceding the new Roll Date if such Roll Date is due to occur in March or (ii) the August preceding the new Roll Date if such Roll Date is due to occur in September, in each case as published in the DTCC Report. Once the Administrator has identified a single reference obligation for each entity in the Index, it will undertake all reasonable efforts to procure the review of the documentation relating to any such reference obligation on the same basis as if such reference obligation were in RED.

The list of reference obligations for the CDX EM Index will be published as set forth below.

Publication of Annex

No later than two (2) Business Days prior to the Roll Date of a CDX EM Index, the Administrator will publish a draft of the annex for the Index along with the weighting and final reference obligations for each entity. The final annex for CDX EM Index will be published after 5:00 p.m. on the Business Day immediately preceding the Roll Date of such new CDX EM Index.

Coupon

Fixed rates will be determined by the Administrator in its sole discretion based on industry rates posted on cdsmodel.com and/or industry-standard trading conventions, in each case as updated from time to time.

Rule Changes

From time to time, the Administrator may determine that revisions to the Rules are necessary to address market changes, including derivatives industry, regulatory, legal and other changes, or otherwise. In such event, the Administrator may, but is not obliged to, consult with the Index Advisory Committee (as detailed in the applicable Advisory Committee Terms of Reference) and publish any such final amendments prior to their effective date. Amendments will not be retroactive. Where possible, Administrator will consult with relevant Advisory Committee members regarding timing of rule changes that may have a material impact on CDX EM Index related transactions. All recommendations made by the Advisory Committee will be carefully considered but are not binding on the Administrator.

Disclaimer

The Administrator does not accept any duty of care to users of the Index and will not be liable to any party to a transaction referencing a CDX EM 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 wilful misconduct.