

**Markit iTraxx[®] Australia
Index Rules**

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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%.

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.

Markit iTraxx Australia Index Construction

Index Roll Process

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”). The most recent iTraxx Australia Index Liquidity List and the criteria detailed in this document will be used to create the new series of the iTraxx Australia Index.

Markit iTraxx Australia Criteria

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 on the iTraxx Australia Liquidity List must satisfy the below criteria (the “iTraxx Australia 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 25 eligible Australian 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 votes received from market participants.

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 have the DC Region of “Australia NZ” on the applicable DTCC liquidity list
- 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.

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.

Markit iTraxx Australia Liquidity List

By 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 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 DTCC report for the iTraxx Australia Liquidity List.

Additional Entities

If 25 entities are available from iTraxx Australia Liquidity List, a maximum of 3 entities can replace entities from the iTraxx Australia Liquidity List, based on advisement from the iTraxx index market participants.

- Markit will distribute the iTraxx Australia Liquidity List requesting members to vote for a maximum number of 3 entities they would like to have replaced by additional entities
- iTraxx index market participants suggest up to 3 names to be removed from the provisional list and the suggested replacements for each name.
- Liquid traded entities which are not included in the iTraxx Australia Liquidity List as well as entities which have significant issuance in the Bond Market can be suggested.
- Markit will distribute a Replacement List, based on all suggestions received from market participants, to the Index market participants to vote on for inclusion.
- Markit will aggregate all votes received from the Index market participants.

- All entities in the Replacement List are sorted according to the number of Index market participants' votes in descending order.
- The entities with the highest votes are added to the entities on the iTraxx Australia Liquidity List, replacing the entities with the highest number of replacement votes on the iTraxx Australia Liquidity List. This process is repeated up to maximum of 3 entities given the majority is in favour.
- In the case of a tie the entity with the average highest ranking will be selected. In the case of an absolute tie the Index market participants will be asked to vote again in order of preference.
- Only entities which receive an absolute majority of votes will replace names on the iTraxx Australia Liquidity List.

If less than 25 entities are available from the DTCC report, additional entities are to be selected to bring the total to 25, based on advisement from the iTraxx index market participants.

- iTraxx Australia market participants will be requested to send a list of the most liquid traded entities which are not included in the DTCC report. Market participants can also suggest entities which have significant issuance in the Bond Market to reach 25 constituents.
- In addition to bringing the index up to 25 constituents, market participants may still select up to a maximum of 3 entities on the iTraxx Australia Liquidity List, to be replaced with liquid traded entities which are not included in the DTCC Roll report as well as entities which have significant issuance in the Bond Market.
- Markit will distribute all suggestions for additional and replacement entities to the Index market participants to vote on for inclusion. Where entities are being suggested to replace names on the Liquidity List, dealers will be asked to vote on both exclusions and inclusions.
- Markit will aggregate all votes received.
 - All entities suggested as additions or exclusions are sorted according to the number of votes in descending order.
 - The entities with the highest votes are selected to be added or removed. In the case of a tie the entity with the average highest Ranking will be selected. In the case of an absolute tie the iTraxx index market participants will be asked to vote again in order of preference.
 - Only entities which receive an absolute majority of votes will replace names on the iTraxx Australia Liquidity List.

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 creating the Liquidity List, applying the Criteria as stated above to create the iTraxx Australia index.

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

If less than 25 entities are available from the iTraxx Australia Liquidity List, additional Entities are to be selected based on advisement from the iTraxx index market participants.

- iTraxx Australia market participants will be requested to send a list of the most liquid traded entities which are not included in the DTCC report. A maximum of 3 entities which have significant issuance in the Bond Market are also eligible. A list of suggested entities will be ranked in order of preference.
- Markit will aggregate all votes received. All entities in this list are sorted according to the number of votes in descending order, and the entities with the highest votes are added to the entities on the iTraxx Australia Liquidity List. In the case of a tie the entity with the average highest Ranking will be selected. In the case of an absolute tie the iTraxx index market participants will be asked to vote again in order of preference.
- Entities will be added to the iTraxx Australia Liquidity List until the total number of names in the iTraxx Australia Liquidity List is 25.
- A maximum of 3 entities which have significant issuance in the Bond Market are eligible for the iTraxx Australia Liquidity List.

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

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