

Markit iTraxx[®] Europe Index Rules

September 2017

Contents

Index Overview	3
Markit iTraxx European Indices Administrator	3
Roll Dates	3
Rule Revision	3
Maturity	3
Weighting	4
Relevant Rating	4
Exchange Rates	4
Markit iTraxx Europe	5
Markit iTraxx Europe Liquidity List	5
Markit iTraxx Europe General Criteria	6
Creation of the New Markit iTraxx Europe Index Series	7
Publication of Provisional Markit iTraxx Europe Index	7
Markit iTraxx Crossover	8
Markit iTraxx Crossover Liquidity List	8
Markit iTraxx Crossover General Criteria	9
Markit iTraxx Crossover Supplementary List	10
Creation of the Markit iTraxx Crossover Supplementary List	10
Ranking of the Crossover Supplementary List	11
Selecting an Entity within a Ticker	11
Debt Tier Classification	13
Creation of the New Markit iTraxx Crossover Index Series	13
Publication of Provisional Markit iTraxx Crossover Index	14
Markit iTraxx Europe & iTraxx Crossover Indices	14
Final Review of Constituent List	14
Publication of Annex	14
Coupon & Recovery Rates	15
Disclaimer	15
Further information	15

Index Overview

Markit iTraxx European Indices Administrator

Markit Indices Limited is the administrator of the Markit iTraxx Europe and Markit iTraxx Crossover indices and all related Sub-Indices. The composition of these indices 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 types of Markit iTraxx Europe or iTraxx Crossover 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 Europe or iTraxx Crossover indices. 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

Each of Markit iTraxx Europe, Markit iTraxx Crossover and all related Sub-Indices will begin on September 20 and March 20 (or the Business Day immediately thereafter in the event that either such date is not a Business Day) of each calendar year (each such date, a “Roll Date”).

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 London, England. All times referred to in this document refer to local time in London, England.

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

The composition of each series of the Markit iTraxx Europe, Markit iTraxx Crossover and Sub-Indices is the same for all maturities for which a fixed rate is published.

For Markit iTraxx Europe and Markit iTraxx Crossover:

- Each Index that has a Roll Date of September 20 shall be issued with the maturity date of December 20 occurring 3 years, 5 years, 7 years and 10 years following the Roll Date.
- Each Index that has a Roll Date of March 20 shall be issued with the maturity date of June 20 occurring 3 years, 5 years, 7 years and 10 years following the Roll Date.

For Markit iTraxx Senior and Markit iTraxx Subordinated Financials and Markit iTraxx Non-Financials:

- Each 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 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.

Weighting

Each entity in Markit iTraxx Europe, Markit iTraxx Crossover and all related Sub-Indices 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., 3.226%). 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

The Relevant Rating of each entity will be considered when determining the inclusion or exclusion of constituents for both the Markit iTraxx Europe and Markit iTraxx Crossover, and all related Sub-Indices. 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, Corporate Family Rating and Long Term Rating 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.

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.

- A Relevant Rating of BBB-/Baa3/BBB- (Fitch/Moody's/S&P) in conjunction with a positive or stable Outlook while not being on negative Watch will be defined as being “Investment Grade” for the purpose of the Rules.
- A Relevant Rating of BBB-/Baa3/BBB- (Fitch/Moody's/S&P) with negative outlook / on negative watch or below will be defined “Non-Investment Grade”.

Exchange Rates

The exchange rates used to convert any non-EUR denominated debt amount to EUR 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.

Markit iTraxx Europe

Prior to the Roll Date the Administrator will create the new series of the Markit iTraxx Europe Index based on the most recent Markit iTraxx Europe Liquidity List and by applying the Markit iTraxx Europe General Criteria as set forth below.

The Markit iTraxx Europe Index is composed of one hundred twenty five (125) liquid European entities with investment grade credit ratings that trade in the CDS market.

Markit iTraxx Europe Liquidity List

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

Using the average weekly trading activity over the last six months prior to the Roll Date as measured in the then-current DTCC Report, the Administrator will create the Markit iTraxx Europe Liquidity List by:

- Determining all entities which:
 - are incorporated in Europe, where ‘Europe’ means EU and EFTA member countries;
 - are classified as “Europe” for the “DC Region” (“Determinations Committee Region”, referring to the relevant ISDA Credit Derivatives Determinations Committee, as defined in the relevant ISDA Credit Derivatives Definitions, the “Credit Definitions”) in the DTCC Report;
 - 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;
 - must have an Investment Grade Relevant Rating as defined above.
- 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 “Markit iTraxx Europe Liquidity Rankings”, and such overall completed list, the “iTraxx Europe Liquidity List”).
- In creating the Markit iTraxx Europe Liquidity Rankings, traded notional volumes as listed in the relevant DTCC Report for entities that fall under the same ticker but trade separately in the CDS market (therefore having separate legal entity names) are aggregated to arrive at an overall volume for those entities when ranking the entities as described above. The most liquid entity under the ticker qualifies for inclusion in the iTraxx Europe Liquidity List. However in the event that the most liquid entity under a ticker is not eligible for the index then the next most liquid entity may be considered instead.
- For bank entities incorporated in Switzerland, the United Kingdom and the Netherlands where both HoldCo and OpCo entities are listed in the relevant DTCC Report, traded notional volumes are aggregated to arrive at an overall volume for those entities when ranking these entities as described above.

Markit iTraxx Europe General Criteria

To be eligible for inclusion in the Markit iTraxx Europe Index and its sub-indices, an entity on the Markit iTraxx Europe Liquidity List and Markit iTraxx Europe Financial Supplementary List must satisfy the following criteria (the “Markit iTraxx Europe General Criteria”):

- Entities must have issued or guaranteed an amount of outstanding publicly traded debt securities (which, for the avoidance of doubt, excludes loans, equities and privately placed debt securities) equal to or in excess of €100,000,000 with a maximum remaining maturity of 30 years, at close of business on the tenth Business Day preceding the Roll Date in a currency that is deliverable into a European CDS contract. For this determination debt issued by Special Purpose Vehicles created by an insurer or reinsurer for the sole purpose of issuing debt will also be taken into account. The total debt issued or guaranteed will be determined by the Administrator based on sources including, but not limited to, public filings and financial reports of the entity. For new issues of the relevant entities, the first settlement date of the issue will be used to determine whether the debt should be taken into account for the above determination.
- Corporate Events. If the Administrator determines at its sole discretion and based on publicly available information and through consultation with market participants that, due to a corporate event being announced or occurring it is no longer appropriate to include such entity taking into account the nature and components of the index, such entity will be excluded. Corporate events include mergers or other similar events that make the entity unsuitable for inclusion in the Markit iTraxx Europe Index.
- Credit Events. The Administrator may determine at its sole discretion that an entity is not suitable for inclusion in the Markit iTraxx Europe index if one of the following occurs on or after the previous Markit iTraxx Europe index roll date with respect to such an entity:
 - (a) 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 Derivatives Definitions, the Credit Definitions) in respect of such an entity has been accepted by the relevant Credit Derivatives Determinations Committee (the “DC”, as defined in the Credit Definitions); provided that as of 5:00 p.m. Relevant City Time (as defined in the DC Rules published on the ISDA Credit Derivatives Determinations Committee webpage (<http://dc.isda.org/>, “DC Rules”) 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
 - (b) a DC Credit Event Announcement (as defined in the Credit Definitions) occurs with respect to such an entity.

As set forth in these Rules, the Administrator may consider any information and make any determinations necessary in relation to Credit Events to obtain a result that preserves the integrity of the Markit iTraxx Europe index.

- The entity must not be 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 Markit iTraxx Europe Liquidity List and otherwise satisfies the relevant criteria as determined at the sole discretion of the Administrator. Where the nature of a corporate action creates uncertainty as to which entity is higher ranking on the Markit iTraxx Europe Liquidity List, the most liquid entity as per the trading activity over the last eight weeks preceding the last Friday of the month prior to the month in which the Roll Date occurs as measured in the DTCC Report will be selected. “Control” of any entity means ownership of a majority of the voting power of that entity.

- The final index comprises 125 entities and is constructed by selecting the highest ranking entities in each sector from the Liquidity List, subject to the following sector restrictions:
 - 30 Autos & Industrials
 - 25 Consumers
 - 20 Energy
 - 20 TMT
 - 30 Financials from the iTraxx Europe Liquidity List (separate Senior & Subordinated indices)
- Financial entities classified under the sub-sector “Specialty Finance” or “Consumer Finance” (per the iTraxx sector classification) will not be eligible.
- For bank entities incorporated in Switzerland, the United Kingdom and the Netherlands where either the OpCo or its parent HoldCo entity meet all eligibility criteria, the parent HoldCo entity will be selected for inclusion provided it meets the relevant rating criteria. However in the event that (i) the OpCo entity has senior non-preferred bonds outstanding, (ii) the HoldCo entity has not issued regulatory loss absorbing capital or (iii) the bank has declared intent to issue senior non-preferred debt, the OpCo entity will be selected for inclusion.
- Each entity is assigned to its appropriate Markit iTraxx Sector and is ranked within its sector, i.e. the entity with the highest liquidity is ranked #1.

Sub-Indices are compiled as follows:

- Markit iTraxx Non-Financials comprises the 95 non-financial entities from the Markit iTraxx Europe index.
- Markit iTraxx Senior Financials comprises the 30 financial entities from the Markit iTraxx Europe index referencing senior debt.

Markit iTraxx Subordinated Financials comprises the 30 financial entities from the Markit iTraxx Europe index referencing subordinate debt. Swiss banking entities within the Subordinated Financials index will be included in the index on the transaction type European CoCo Financial Corporate.

Creation of the New Markit iTraxx Europe Index Series

Prior to the Publication Date (as set forth below) for a new series of the Markit iTraxx Europe Index, the Administrator will create the new Markit iTraxx Europe Index by creating the Liquidity List and applying the General Criteria as stated above to create the New Markit iTraxx Europe Index.

Publication of Provisional Markit iTraxx Europe Index

The list of entities resulting after the steps above (the “Provisional Markit iTraxx Europe Index”) will be published on Markit’s public website 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 Markit iTraxx Europe Index and Sub-Indices will be published as set forth in the 'Publication of Annex' section below.

Markit iTraxx Crossover

Prior to the Roll Date, the Administrator will create the new series of the Markit iTraxx Crossover Index based on the most recent Markit iTraxx Crossover Liquidity List and Markit iTraxx Crossover Supplementary List and by applying the Markit iTraxx Crossover General Criteria as set forth below.

The Markit iTraxx Crossover Index is composed of up to 75 European entities which do not have Investment Grade credit ratings.

Markit iTraxx Crossover Liquidity List

As part of the Index Roll process, the Administrator will create the Markit iTraxx Crossover Liquidity List after each publication of the DTCC Report.

Using the average weekly trading activity over the last six months prior to the Roll Date as measured in the then-current DTCC Report, the Administrator will create the Markit iTraxx Crossover Liquidity List by:

- Determining all entities which:
 - are incorporated in Europe, where 'Europe' means EU and EFTA member countries;
 - demonstrate trading activity greater than zero during the last eight weeks preceding the last Friday of the month prior to the month in which the Roll Date occurs as measured in the DTCC Report;
 - are classified as "Europe" for the "DC Region" ("Determinations Committee Region", referring to the ISDA Credit Derivatives Determinations Committee, as defined in the Credit Definitions) in the DTCC Report;
 - either:
 - have a Non-Investment Grade Relevant Rating as defined above;
 - has no Relevant Rating, i.e. is not rated by Fitch, Moody's and S&P ("Unrated").
- 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 "Markit iTraxx Crossover Liquidity Rankings", and such overall completed list, the "Markit iTraxx Crossover Liquidity List").
- In creating the Markit iTraxx Crossover Liquidity Rankings, traded notional volumes in the relevant DTCC Report for entities that fall under the same ticker but trade separately in the CDS market (therefore having separate legal entity names) are aggregated to arrive at an overall volume for those entities when ranking the entities as described above. The most liquid entity under the ticker qualifies for inclusion on the Markit iTraxx Crossover Liquidity List. However in the event that the most liquid entity under a ticker is not eligible for the index then the next most liquid entity may be considered instead.

Markit iTraxx Crossover General Criteria

To be eligible for inclusion in the Markit iTraxx Crossover Index, an entity on the Markit iTraxx Crossover Liquidity List must satisfy the following criteria (the “Markit iTraxx Crossover General Criteria”):

- The entity must have issued or guaranteed an amount of outstanding publicly traded debt securities (which, for the avoidance of doubt, excludes loans, equities and privately placed debt securities) equal to or in excess of €100,000,000 with a maximum remaining maturity of 30 years, at close of business on the tenth Business Day preceding the Roll Date in a currency that is deliverable into a European CDS contract. The total debt issued or guaranteed will be determined by the Administrator based on sources including, but not limited to, public filings and financial reports of the entity. For new issues of the relevant entities, the first settlement date of the issue will be used to determine whether the debt should be taken into account for the above determination.
 - Corporate Events. If the Administrator determines at its sole discretion and based on publicly available information and through consultation with market participants that, due to a corporate event being announced or occurring it is no longer appropriate to include such entity taking into account the nature and components of the index, such entity will be excluded. Corporate events include mergers or other similar events that make the entity unsuitable for inclusion in the Markit iTraxx Crossover Index.
 - Credit Events. The Administrator may determine at sole its discretion that an entity is not suitable for inclusion in the Markit iTraxx Crossover index if one of the following occurs on or after the previous Markit iTraxx Crossover index roll date with respect to such an entity:
 - (a) 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 in the Credit Definitions) in respect of such an entity has been accepted by the relevant DC; provided that as of 5:00 p.m. Relevant City Time (as defined in the DC Rules) 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
 - (b) a DC Credit Event Announcement (as defined in the Credit Definitions) occurs with respect to such an entity.
- As set forth in these Rules, the Administrator may consider any information and make any determinations necessary in relation to Credit Events to obtain a result that preserves the integrity of the Markit iTraxx Crossover index.
- The entity must not be 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 Markit iTraxx Crossover Liquidity List and otherwise satisfies the relevant criteria as determined at the sole discretion of the Administrator. Where the nature of a corporate action creates uncertainty as to which entity is higher ranking on the Markit iTraxx Europe Liquidity List, the most liquid entity as per the trading activity over the last eight weeks preceding the last Friday of the month prior to the month in which the Roll Date occurs as measured in the DTCC Report will be selected. “Control” of any entity means ownership of a majority of the voting power of that entity.
 - Financial entities (per the iTraxx sector classification) are not eligible. However entities classified under the sub-sector “Specialty Finance” (per the iTraxx sector classification) will be eligible.

- The entity must have an average spread at least one and a half (1.5) times the average spread of the constituents of the new Markit iTraxx Non-Financial Index.
 - For this determination the Markit End of Day Composite CDS Spreads¹ 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, and evaluated against the average spread of all constituents of the Markit iTraxx Non-Financial Index (over the same 10 Business Day period) to determine eligibility. (For example, if the average spread of the all entities in the new Markit iTraxx Non-Financial Index effective 20 March was 40 bps over the last 10 Business Days in February, then only those entities whose average spread over the last 10 Business Days in February was 60 bps or higher will qualify for the new series of the Markit iTraxx Crossover index).
- The entity must have a maximum CDS upfront of 50 points corresponding to 500 bps running spread.
 - For this determination, the Markit End of Day Composite CDS Upfronts at the 5 year tenor are used to calculate the average upfront of the entity over the last 10 Business Days of the month prior to the month in which the Roll Date occurs.
 - The upfront levels used are calculated by Markit by converting Markit End of Day Composite CDS Spreads to upfronts using the ISDA standard model.

Markit iTraxx Crossover Supplementary List

If less than 75 entities are available from the Markit iTraxx Crossover Liquidity List that satisfy the above criteria, a supplementary list compiled in accordance with this section (“the Crossover Supplementary List”) is used to select additional names.

Creation of the Markit iTraxx Crossover Supplementary List

The Administrator will create a list according to the following criteria:

- Entities must be incorporated in Europe, where ‘Europe’ means EU and EFTA member countries.
- Entities must have issued a minimum of €500,000,000 (under the same ticker) over the last 12 months (as of the last Business Day of the month prior to the month of the Roll Date – referencing the first settlement date as date of issuance) in a currency which is deliverable into a European CDS contract (“New Debt Issuance”) which satisfies the following criteria:
 - at least €250,000,000 of the New Debt Issuance should be issued in the three European currencies: CHF, EUR and GBP;
 - include all publicly traded debt at all tiers, including senior and subordinated, secured and unsecured;
 - loans, debt guaranteed (but not issued) by the entity, convertibles and privately placed debt securities will be excluded;
 - New Debt Issuance by entities with Investment Grade Relevant Ratings will not be considered;
 - New Debt Issuance by entities which are Unrated but have Senior Unsecured or Senior Secured debt rated below Investment Grade outstanding will still be considered;

¹ Where credit default swap spreads are required to determine eligibility for inclusion, whether it be in par spread terms or in points upfront, the “Markit CDS End of Day” service will be used. Markit receives contributed CDS data from market makers official books of record. This data undergoes a rigorous cleaning process before being aggregated to form the “Markit CDS End of Day” Composite.

- debt exchanges which do not result in a material change to the economic terms of previously issued debt will not be considered as New Debt Issuance. The economic terms of issued debt will be viewed to have changed if there is a reasonable adjustment to any of the following: the notional, maturity or seniority of the issued debt; or the amount, currency or composition of coupons or principal payments.
- Entities must not be 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 Markit iTraxx Crossover Liquidity List or Markit iTraxx Crossover Supplementary List and otherwise satisfies the relevant criteria as determined by the Administrator. “Control” of any entity means ownership of a majority of the voting power of that entity.
- Entities must not appear on the DTCC Report in order to be candidates for the Crossover Supplementary List, though affiliates of entities on the DTCC Report are eligible for the Crossover Supplementary List as long as existing rules concerning affiliates within the Crossover index are met.
- Entities must not have issued debt via Loan Participation Note (LPN) programs.

Ranking of the Crossover Supplementary List

Once the list is created as set out under the “Creation of the Crossover Supplementary List” above the list will be ranked by ticker according to the below rules.

- The Crossover Supplementary List will consist of those entities which satisfy the above criteria and ranked by the largest amount of New Debt Issuance from all eligible entities under the relevant ticker in the 3 European currencies: CHF, EUR and GBP. To the extent that two or more entities are determined to have the exact same amount of New Debt Issuance in the 3 European currencies, the Administrator shall rank such entities by (i) New Debt Issuance from all eligible entities under the relevant ticker in all currencies which are deliverable into a European CDS contract, then (ii) by the total amount of senior unsecured debt outstanding at all eligible entities under the relevant ticker and if still two or more names are equally ranked by (iii) the most recent senior unsecured issuance from all eligible entities under the relevant ticker in any of the 3 European currencies: CHF, EUR and GBP.

Selecting an Entity within a Ticker

- For the purposes of the Crossover Supplementary List, entities will be considered Eligible if one or more of the following criteria is satisfied:
 - the entity has a Non-Investment Grade Relevant Rating;
 - is Unrated and at least one bond issued by the entity is rated Non-Investment Grade by at least one of S&P, Moody’s or Fitch (entities which are Unrated and have only have Unrated debt outstanding will not be Eligible);
 - for the above determination provisional ratings from Fitch/Moody’s/S&P will also be used if available;
- If multiple entities have issued bonds under the same ticker, the entity that is a candidate for inclusion in the Crossover Supplementary List is the one which has issued the largest amount of Senior Unsecured debt.
- If none of the entities under the same ticker have issued Senior Unsecured debt then entities which have issued Senior Secured debt will be considered.

- Where there is only one entity under the relevant ticker and this entity has only issued Senior Secured debt, this entity will be selected for the Crossover Supplementary List.
- If there are multiple Eligible entities under the relevant ticker and all of these entities have only issued Senior Secured debt, the Administrator will endeavour to select the Eligible entity which has issued the largest amount of lower ranking Senior Secured for the Crossover Supplementary List.
 - The Administrator may use bond and/or entity ratings and consult with Markit RED in order to achieve this.
 - If the Administrator believes that the Senior Secured debt issued by these entities is of equal ranking, then the Eligible entity with the largest outstanding amount of Senior Secured debt will be selected.
- Where more than one entity have issued debt under the same ticker, if the entity with the largest amount of Senior Unsecured or Senior Secured debt outstanding (as identified by above rules) is not European, then the entity (and ticker) will not be included.
- For the purposes of choosing an entity within a ticker:
 - Only bonds with maturities of 30 years or below from the new index start date will be considered when determine outstanding amounts.
 - PIK notes and convertibles will not be considered. (To clarify - PIK notes are considered when determining New Debt Issuance.)
- Z-Spread Requirement: For an Eligible entity to be considered for inclusion a bond issued by such entity needs to be identified with an average Z-spread at least one and a half (1.5) times the average spread of the constituents of the new Markit iTraxx Non-Financial Index. For this determination the average Z-Spread to maturity for the last 10 Business Days of the month prior to the month in which the Roll Date occurs is used. The Z-Spread to maturity is used even if the Markit End of Day Composite CDS Spreads are available from Markit for these entities. The Z-Spread, which is based on the dirty prices of the issuer bonds, is calculated over the Swap Yield Curve by Markit Evaluated Bonds Service.
 - For the Z-Spread test the Eligible entity with the largest amount of relevant debt outstanding as described above will be tested first.
 - The relevant bond for an entity should be the bond with the closest maturity to the 5-year maturity date of the current index series which satisfies the following criteria:
 - the bond should be Senior Unsecured if available, else a Senior Secured bond will be considered;
 - if the entity is Unrated the bond must be rated Non-Investment Grade;
 - the amount outstanding for the bond should be at least €200,000,000, or the equivalent in a Standard Specified Currency (as defined in the Credit Definitions) (as of the last Business Day of the month prior to the month in which the Roll Date occurs);
 - if two or more bonds are equidistant from the 5-year CDS maturity date and satisfy all of the other criteria, the bond with the highest amount outstanding in a Standard Specified Currency (as defined in the Credit Definitions) (as of the last Business Day of the month prior to the Roll Date) is selected.

- if no Senior Unsecured or Senior Secured bonds are available for verification of the Z-spread criteria for a specific entity under a ticker, such entity is not considered for index membership - in this event the next Eligible entity under the ticker will be considered;
- If the first Eligible entity tested fails the Z-spread test, then no entities under the ticker will be considered.
- If there are no Eligible entities with bonds meeting the Z-spread requirement under a ticker then no entities under this ticker will be considered for index inclusion via the Crossover Supplementary list.
- Bonds for which Z-spreads are not available from Markit's Evaluated Bond Service will not be considered.

Debt Tier Classification

The below criterion is used to establish the Debt Tier classification of a bond for determining eligibility of the issuing entity for the Markit iTraxx Crossover Supplementary List, as follows:

- The bond will be classified as Senior Unsecured if any of the below criteria are satisfied:
 - The bond's rating from Moody's is equal to the Moody's Senior Unsecured or Moody's Senior Subordinate Debt Rating.
 - The bond rating from S&P is equal to the S&P Senior Unsecured or S&P Senior Subordinate Debt Rating.
 - The bond rating from Fitch is equal to the Fitch Senior Unsecured or Fitch Senior Subordinate Debt Rating.
- The bond will be classified as Senior Secured if any of the below criteria are satisfied:
 - The bond's rating from Moody's is equal to the Moody's Senior Secured Debt Rating.
 - The bond rating from S&P is equal to the S&P Senior Secured Debt Rating.
 - The bond rating from Fitch is equal to the Fitch Senior Secured Debt Rating.
- If the above tests are inconclusive, then the Markit RED Tier classification (if available) is used. Bonds with a Subordinated Markit RED Tier classification will be ranked as Senior Unsecured.
- If the above tests are inconclusive and the Markit RED Tier classification is unavailable then the bond is considered to be Senior Unsecured.

Creation of the New Markit iTraxx Crossover Index Series

The final portfolio comprises up to 75 names with the highest ranking entities from the Markit iTraxx Crossover Liquidity List and if required, the Crossover Supplementary List. In both cases all entities must meet the iTraxx Crossover General Criteria set forth above to be included. If there are less than 75 entities available the index will consist of the number of entities available rounded down to a multiple of 5.

Publication of Provisional Markit iTraxx Crossover Index

The list of entities resulting after the steps above (the “Provisional Markit iTraxx Crossover 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 are required. The comment period will end four (4) Business Days prior to the Roll Date. The draft and final annexes for the Markit iTraxx Crossover Index will be published as set forth below.

Markit iTraxx Europe & iTraxx Crossover Indices

Final Review of Constituent List

If on any day prior to the date of the publication of a final index annex, the Administrator determines that any entity that is intended to be included in the relevant index fails any of the Markit iTraxx Europe General Criteria or Markit iTraxx Crossover General Criteria, then such entity shall be excluded from the Markit iTraxx Europe or Markit iTraxx Crossover Indices, as applicable.

If the Administrator determines that any entity shall be excluded from the Markit iTraxx Europe or Markit iTraxx Crossover Index in accordance with the preceding paragraph, then the highest ranked entity in the Markit iTraxx Europe or Markit iTraxx Crossover Liquidity Lists (or Crossover Supplementary List, if the new entity cannot be selected from the Markit iTraxx Crossover Liquidity List), as applicable that has not already been included in the Markit iTraxx Europe or Markit iTraxx Crossover Index, as applicable, shall be added to the new Markit iTraxx Europe or Markit iTraxx Crossover Index, respectively, as a replacement entity.

If the new entity cannot be selected from the Markit iTraxx Crossover Liquidity List for the new Markit iTraxx Crossover Index, the entity will then be selected from the Crossover Supplementary List as described above.

Where a determination with regard to constituent selection is made by the Administrator which involves discretion and/or expert judgement, 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 Markit iTraxx Europe or Markit iTraxx Crossover Index, the Administrator will publish a draft of the annex for such Markit iTraxx Europe or Markit iTraxx Crossover Index and each Sub-Index, along with the weighting and final Reference Obligations (as defined in the Credit Definitions) for each entity. The final annex for the Markit iTraxx Europe and Crossover Indices and each Sub-Index will be published after 5:00 p.m. on the Business Day immediately preceding the Roll Date of the Indices.

Coupon & Recovery Rates

Fixed rates and recovery rates will be determined by the Administrator in its sole discretion based on industry rates and updated from time to time.

Disclaimer

The Administrator does not undertake any duty of care and will not be liable to any party to a transaction referencing a Markit iTraxx Europe or Markit iTraxx Crossover or related Sub-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 Indices Limited

Tel:	00800 6275 4800
Fax:	+44 20 7260 2001
E-mail:	MK-Creditindices@markit.com
Internet:	www.markit.com

Licenses and Data

Markit (through the entities Markit North America, Inc., Markit Indices Limited and Markit Group Holdings) owns all iTraxx, iTraxx SovX and CDX data and indices and the intellectual property rights therein. A license is required 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.