

Markit Update: Markit CDX NA IG, HVOL and EM index rolls

The final membership of the new Markit CDX NA IG, HVOL and EM indices was announced this week. The following report outlines the changes and provides some colour on the constituents. The Markit CDX NA IG, HVOL and EM 16 will start trading on 21 March 2011. The Markit CDX.EM.DIV will no longer roll.

Starting this roll the name changes are based on a rules-based approach that uses DTCC Trade Information Warehouse data on trading volumes into the addition and removal process for the Markit CDX NA IG. The goal is to provide more transparency and objectivity in the roll process. More details on the methodology can be found at www.markit.com. Generally the construction process starts by determining which current constituents are no longer eligible going forward based on ratings criteria, corporate actions or where an actual or pending action by an ISDA Determinations Committee (such as succession or credit event).

The next step is to construct the liquidity rankings for eligible names. Liquidity rankings are constructed by utilising the last six months of DTCC weekly market activity data for the top 1000 names. Entities are ranked by averaging the previous six months of weekly gross notional numbers, starting from the last Friday of the month prior to the roll date and going back six months. Entities within the top 20% of the most liquid names, and are not already part of the index, are included in the index. Those in the bottom 30% of the most liquid names are automatically excluded. Depending on the net deficit, names beyond the top 20% will be added or names more liquid than the bottom 30% will be excluded such that the total number of constituents reaches the desired total of 125 entities.

In constructing the liquidity rankings, attention is also paid to ensure that a constituent does not serve as the guarantor of another constituent. This is to prevent risk concentration in the index.

The constituents for the Markit CDX HVOL are simply the 30 constituents from the Markit CDX NA IG with the widest average CDS spreads over the past 90 days. There were no changes to the composition of the Markit CDX EM for this roll.

Fixed Coupons

Fixed Coupon Rate (bps)	1Y	2Y	3Y	5Y	7Y	10Y
Markit CDX.NA.IG.16	100	100	100	100	100	100
Markit CDX.NA.IG.HVOL.16	100	100	100	100	100	100
Markit CDX.EM.15	--	--	--	500	--	500

Markit CDX NA IG 16

Additions

Markit Ticker	Name	5Y CDS Spread	6M Change	Liquidity Percentile
TSN	Tyson Foods, Inc.	141	-8	92%
BRK	Berkshire Hathaway Inc.	99	-69	91%
COF	Capital One Financial Corporation	88	-20	87%
PBI	Pitney Bowes Inc.	138	1	83%
EXPD	Expedia, Inc.	153	-17	80%
	Average	124		

*5Y CDS Spread is for March 9 2011

Removals

Markit Ticker	Name	5Y CDS Spread	6M Change	Liquidity Percentile
SPLS	Staples, Inc.	89	-39	34%
XTO	XTO Energy Inc.	26	10	32%
BPLP	Boston Properties Limited Partnership	78	-63	31%
BRK-BRLF	Burlington Northern Santa Fe, LLC	35	-10	41%
COF-BNKNA	Capital One Bank (USA), National Association	68	-18	78%
	Average	59		

Renames

These credits are constituents in the new Markit CDX NA IG Series 16 and simply reflect corporate name changes.

New Name	Previous Name
Motorola Solutions, Inc.	MOTOROLA, INC
XL Group Ltd.	XL CAPITAL LTD

Of the changes, Tyson Foods and Expedia are constituents of prior indices. Tyson Foods is a member of the IG Series 1-8 and HY Series 9-15. Expedia is a member of IG Series 7-8. Burlington and Capital One Bank, NA both got replaced by their more liquid affiliates, Berkshire and Capital One Financial Corporation.

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