



The Markit CDS Converter Guide

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Markit CDS Converter

Markit has developed the Markit CDS Converter, an implementation of the ISDA CDS Standard Model¹, in close collaboration with ISDA and industry participants. The Markit CDS Converter is available at <http://www.markit.com/cds>.

The Markit CDS Converter and the code behind it are critical to making sure that trades under the new quoting and trading conventions do not break during the trade confirmation process due to differences in points upfront. This is one of the common causes for trade breaks on indices.

Steps for Use

Here we illustrate how to go from conventional spreads to an upfront using the Converter as well as providing specifications for the fields.

Markit CDS Converter

For:

Trade Date	27Jul2009	Buyer
Maturity	September	2014
Recovery Rate	40 %	
Standard Coupon	100 bps	
Notional	10 MM	USD

Convert:

Upfront

Conventional Spread 325 bps

%

325 bps

Results

Conventional Spread	325.000000000000 bps
Clean Price	90.34259540862 %
Cash Settlement Amount	-955,740
Accrued Amt / Days Accrued	10,000.00 / 36
Trade / Settle Dates	27Jul2009 / 30Jul2009

This application (version 2.1) is based on the ISDA CDS Standard Model (version 1.7), developed and supported in collaboration with Markit
Based on the Interest Rate Curve

1) Enter inputs

2) Specify Upfront or Conventional Spread

3) Convert!

Optional: Email results to others

Results

¹ The ISDA Standard CDS model is the source code for CDS calculations and can be downloaded through <http://www.cdsmodel.com>

1. Specify all required trade inputs: Trade Date, Protection Buyer or Seller, Maturity, Tier (Recovery), Standard Coupon, Notional, and Currency.
 - a. Trade Date: Defaults to today but can select back to one month.
 - b. Protection Buyer or Seller: Specifies the perspective from which the calculation is done. It defaults to Protection Buyer.
 - c. Maturity: Choose IMM Month from dropdown and enter in year. Defaults to a 5 year trade convention. IMM date rolls to always show 5Y on the run trade.
 - d. Recovery Rate: Specify the recovery rate in the free form field. Details for the recovery rates permissible for standardized contracts are in the Forthcoming CDS Convention Changes as posted on <http://www.markit.com/cds>.
 - e. Standard Coupon: Specify the fixed coupon in the free form field. Details for the fixed coupons used for all standardized contracts are in the Forthcoming CDS Convention Changes document posted on <http://www.markit.com/cds>.
 - f. Notional: Enter notional in millions (i.e., \$10 million is entered as 10).
 - g. Currency: Choose from U.S. Dollar (USD), Euro (EUR), Australian Dollar (AUD), Canadian Dollar (CAD), Swiss Franc (CHF), British Pound (GBP), Hong Kong Dollar (HKD), Japanese Yen (JPY), New Zealand Dollar (NZD), and Singaporean Dollar (SGD) in the dropdown box.
2. Specify whether to convert Upfront or Conventional Spreads
3. Click the 'Convert' button

Interpretation of Results

Conventional Spread: If the user specified this as an input to convert to an upfront, then it is simply the conventional spread of the trade per the user's specification. If the user specified the upfront, then it is the calculated result of the conversion.

Clean Price: The clean price is the percentage of notional adjusted for the upfront payment but not including the accrued. The relationship between the clean price and the upfront is $1 - \text{Upfront (in decimal form)} = \text{Clean Price (in decimal form)}$

Cash Settlement Amount: This is the amount due at settlement date which includes the upfront amount and accrued amount. In the example above, protection buyer owes the protection seller an upfront payment reduced by the amount of accrued interest rebated (calculations from protection buyer's perspective and the negative cash settlement amount indicates a cash outflow).

Accrued Amt / Days Accrued: The Markit CDS Converter shows the Days Accrued which is the number of days that accrued since the last IMM date and the amount that has accrued. The accrued amount is always shown without a currency as this is chosen by the user as part of the calculation. The protection buyer pays a full coupon payment to the protection seller on the IMM payment date. The accrual represents the amount rebated to the protection buyer from the protection seller for the days in the quarter in which the protection buyer did not enjoy protection. For more information, please see Markit's report "The CDS Big Bang: Understanding the Global Contract and North American Convention Changes" available at www.markit.com/cds.

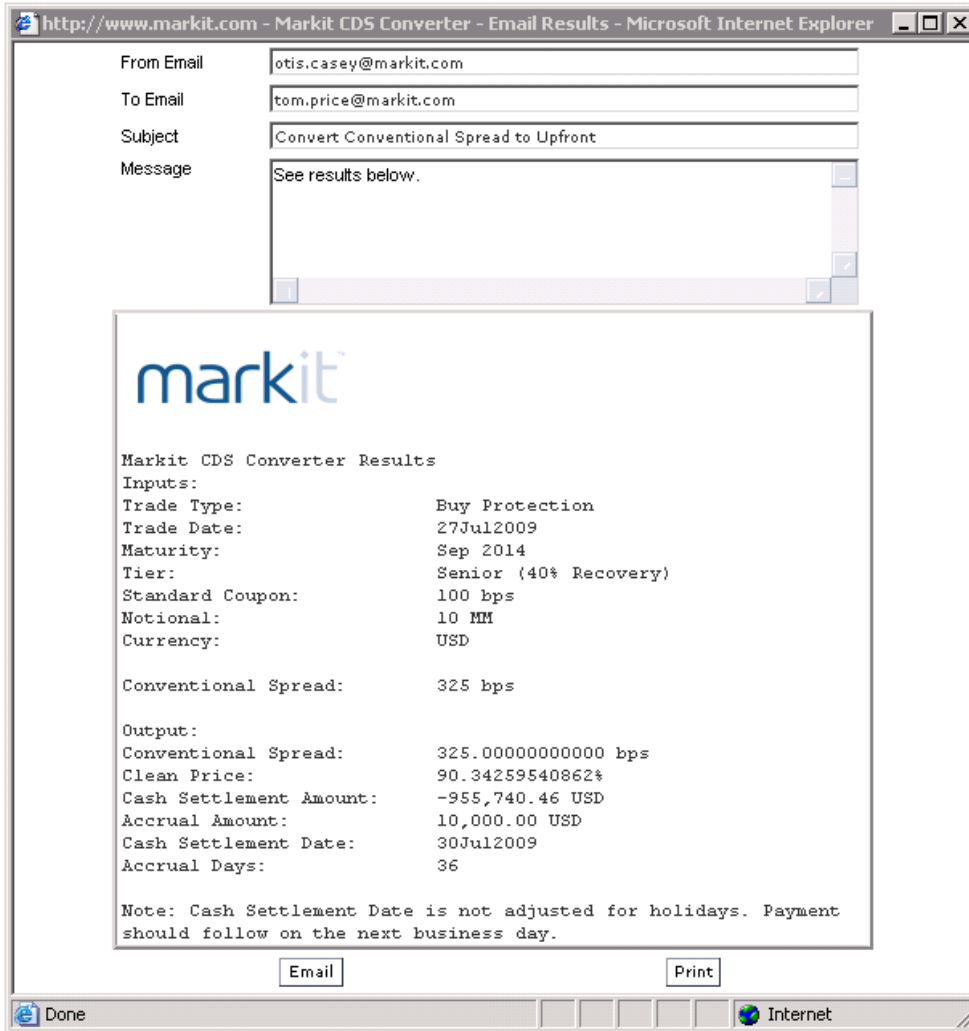
The formula for Days Accrued is: $\text{Trade Date} - \text{Last IMM Date} + 1$

The formula for Accrued Amt is: $\text{Days Accrued} / 360 * \text{Coupon} * \text{Notional}$

Trade /Settle Dates: The trade date is the date selected by the user as part of the input into the calculation. Settlement date convention is T+3 business days (3 business days following trade date).

Email Results

The Markit CDS Converter allows for users to send the results of their calculations to colleagues or counterparties to help facilitate common results and prevent trade breaks. In addition, users can also send the results to their printer.



Interest Rate Curve

By clicking on the "Interest Rate Curve" link at the bottom of the Markit CDS Converter, users can see the interest rates used in the calculations along with the calculation conventions. For a full and detailed explanation of the calculation conventions and assumptions used in the Markit CDS Converter, users should consult the appropriate documentation available at www.cdsmodel.com.

Results	
Conventional Spread	325.000000000000 bps
Clean Price	90.34259540862 %
Cash Settlement Amount	-955,740.46
Accrued Amt / Days Accrued	10,000.00 / 36
Trade / Settle Dates	27Jul2009 / 30Jul2009
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Based on the <u>Interest Rate Curve</u>	

Date: 27-Jul-2009		Currency: USD
Type	Tenor	Rates
Deposit	1M	0.002850
Deposit	2M	0.003469
Deposit	3M	0.005019
Deposit	6M	0.009506
Deposit	9M	0.012494
Deposit	1Y	0.014894
Swap	2Y	0.014576
Swap	3Y	0.021070
Swap	4Y	0.026215
Swap	5Y	0.030015
Swap	6Y	0.032843
Swap	7Y	0.035054
Swap	8Y	0.036444
Swap	9Y	0.037825
Swap	10Y	0.038815
Swap	12Y	0.040384
Swap	15Y	0.041770
Swap	20Y	0.042674
Swap	25Y	0.043137
Swap	30Y	0.043425

Interest Rate Conventions	
Spot Date	29-Jul-2009
MM Day Count Convention	A/360
Swap Day Count Convention	30/360
Float Day Count Convention	A/360
Swap Payment Frequency	6M
Float Payment Frequency	3M
Bad Day Convention	M
Holidays	none

Comments or Questions

For questions or comments, please contact Markit via email at support@markit.com or telephone:

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