



markit™

**Markit RED
A Primer**

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I. Introduction

Markit RED is the market standard Reference Entity Database providing critical reference data which is used to document and confirm credit derivative transactions. Markit RED reduces legal risk and increases operational efficiency by verifying reference entity and reference obligation information.

This document outlines the key features of Markit RED as they pertain to both the Credit Default Swap (CDS) and Loan Credit Default Swap (LCDS) markets.

II. Markit RED for CDS

Markit RED legally verifies the relationship between reference entities and reference obligations which trade in the CDS market, known as pairs. The legal verification process is managed by a leading international law firm with extensive derivatives experience.

Reference entities and pairs are uniquely identified with alpha-numeric RED Codes. The 6-digit RED Entity and 9-digit RED Pair Codes facilitate straight-through processing and ensure accuracy in reference data mapping. The most liquid reference obligations are flagged as the market standard RED 'preferred' and are widely used for electronic trading, matching and clearing.

RED data helps reduce errors when affirming or confirming single name or basket trades and ensures correct representation of the underlying credit risk. The Markit RED succession event repository provides automated corporate event alerts and allows users to access a historical database of corporate events to maintain portfolios over the life of a trade.

Markit RED has been fully integrated with all widely used inter-dealer broker, trade execution, trade processing and market data platforms that operate in the CDS market. Specific uses of RED for CDS include:

- Subscribers integrate the RED data into their core systems and use it to clean existing data used in credit derivative applications.
- RED data helps reduce errors when affirming or confirming single name or basket trades either in paper or in electronic format.
- RED Codes facilitate straight through processing and ensure accuracy in reference data mapping.
- RED Codes are widely used for electronic trading, matching and clearing.

Key Features

- Markit RED Entities houses critical information about the reference entities trading in the CDS market, such as long legal name and jurisdiction, each identified with a unique 6-character RED code
- Markit RED Pairs links frequently used reference obligation data with their corresponding reference entities, with each pair identified by a unique 9-character RED code
- Markit RED Indices contains legally verified index constituent reference data for all on-the-run and off-the-run Markit credit derivative indices
- Markit Successor with corporate action information and successor summaries for select corporate events
- All RED data is available via website interface or automated XML downloads

Case Study

A series of corporate events in 2004 affected all bond debt associated with Carlton Communications PLC (the reference entity). One of these bonds, ISIN XS0094626941, is used as an example reference obligation for the sake of this case study.

Prior to 10 June 2004, Carlton Communications PLC was the issuer of the reference obligation with ISIN XS0094626941. On 10 June 2004, ITV PLC was substituted as issuer and Carlton Communications PLC became the guarantor. On 27 Sep 2004, Carlton Communications PLC changed its corporate form to become Carlton Communications Limited.

Markit RED clearly reflects these events, providing market participants with critical information for CDS trading purposes:

ISIN	Entity	Role	Pair Code	Valid From	Valid To	Current
XS00946269941	Carlton Communications PLC	Issuer	156AF9AA2	-	2004-06-10	N
XS00946269941	ITV PLC	Issuer	GKDHCEAA2	2004-06-10	-	Y
XS00946269941	Carlton Communications PLC	Guarantor	156AF9AC8	2004-06-10	2004-09-27	N
XS00946269941	Carlton Communications Limited	Guarantor	GHA96MAA9	2004-09-27	-	Y

Additionally, Public Comments available in RED outline the relevant details of these events:

“As of 10-Jun-04 ITV PLC was substituted as Issuer on the Reference Obligations and CARLTON COMMUNICATIONS PLC (previously the Issuer) became Guarantor. Carlton then changed its corporate form to LIMITED as of 27-Sep-2004.”

III. Markit RED for LCDS

Markit RED has been further developed to support the growth in trading LCDS by providing transparent reference data. Markit RED verifies the reference entities, credit agreements and loan facilities used as reference obligations in the LCDS market.

In North America, Markit RED verifies and maintains all underlying syndicated secured loan reference data contained in the Syndicated Secured List (SSL). Reference entities are uniquely identified with 6-digit RED Entity Codes. All identifiers are updated following a corporate event or refinancing. Markit works proactively with all major dealers of LCDS to ensure that the SSL provides updated information on most liquid names.

In Europe, Markit RED has been established as the definitive standard for verification of LCDS reference data. The RED service supports the latest non-cancellable ISDA documentation, providing transparency into refinancing and cancellation events through the Markit RED Continuity Procedures for European LCDS. Reference credit agreements are uniquely identified with 6-digit RED Codes and the reference obligations of a common lien ranking are uniquely identified with 9-digit RED Codes.

Markit RED identifiers for LCDS allow users to make a connection between synthetic and cash loan data. Additional benefits of RED LCDS include:

- Markit RED LCDS provides regular, comprehensive monitoring of LCDS reference entities & obligations. Unique RED Code identifiers allow subscribers to efficiently and accurately confirm LCDS trades and facilitate straight through processing.
- Markit RED LCDS provides verified reference data for North American and European loan credit default swaps. By providing legally verified information in Europe, it greatly reducing subscribers' legal costs.
- Markit RED LCDS provides market transparency through managing LCDS Continuity (identification of one or more related Substitute Reference Obligations) in cases of refinancing, cancellation or when a substitute reference obligation is unclear.

Key Features

- Legally verified Reference Credit Agreement names and facility information for over 160 European Credit Agreements and over 580 market verified records of entity names and reference obligation details in North America.
- Corporate event and refinancing event notifications.
- Unique six-digit alpha-numeric RED Codes to identify reference entities in North America and reference credit agreements in Europe for use in matching on DTCC.
- Additionally, unique nine-digit alpha-numeric RED Codes to identify reference credit agreement and ranking pairs for Europe.
- Subscribers can request additions of new reference obligations to RED LCDS database saving legal costs and improving time to confirmation.
- Mapping of LCDS and Cash Loans pricing and associated reference data currently available for North America and Europe.
- All RED data is available via website interface or automated XML downloads.