



IHS Markit™

iTraxx Asia ex-Japan Rule Review

By IHS Markit

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Overview of Proposed Rule Change

- IHS Markit is finalising the review of the index constituent selection methodology for the iTraxx Asia ex-Japan index by introducing a Market-Sector Profile based on the iBoxx USD Asia ex-Japan Investment Grade Index
- While the purpose is to align the CDS Index closer with the Asia ex-Japan USD IG bond market, primary target of the index remains the inclusion of eligible entities that are liquid in the CDS market, therefore, the Liquidity List rule will be maintained.
- To introduce new names to the CDS index a **Debt Issuer List** will be used when there is dearth of eligible names in the Liquidity List. The Debt Issuer List will have the following characteristics:
 - > Consist of Asia ex-Japan issuers that have at least USD 1 billion outstanding and are included in the iBoxx USD Asia ex-Japan Investment Grade Index
 - > Entities must have a minimum rating of at least BBB as per *iBoxx Rating Methodology*
 - > Ranked based on a combination of bond notional outstanding and number of bonds outstanding. Entities with higher amount outstanding and more than one bond outstanding will rank higher in the list.
- While the rule review will result in about 20 constituent changes, we intend to gradually have these changes implemented over 3-4 index rolls.

Current Market / Sector Profile

iBoxx USD Asia ex-Japan Investment Grade Index
(Scaled to 40 constituents)

Market	Financials	Non-Financials	Real Estate	Sovereigns (incl. Sub-sovs.)
China	6	10	2	2
Hong Kong	1	1	1	
India	1	1		1
Indonesia		1		3
Malaysia		1		
Philippines				2
Singapore	1			1
South Korea	1	2		2
Thailand	0			

iTraxx Asia ex-Japan Series 31

Market	Financials	Non-Financials	Real Estate	Sovereigns (incl. Sub-sovs.)
China	2	4		3
Hong Kong		2	2	
India	3	1		
Indonesia				1
Malaysia		2		1
Philippines				1
Singapore	3	1	1	
South Korea	4	5		3
Thailand				1

Proposed Selection Process

- **Step 1:** Start with the current on-the-run index composition and determine gaps in Market & Sector alignment
- **Step 2:** Make additions / deletions in the index under following considerations:
 - > Make addition to the most underweight Market & Sector from the Liquidity List.
 - If there are no names available from the Liquidity List, pick the highest ranked eligible entity from the Debt Issuer List
 - > Remove least liquid entity from the most overweight Market & Sector
- **Step 3:** Repeat Step 2 until the index has aligned with iBoxx Asia ex-Japan Investment Grade in terms of Market & Sector weighting, or until the below restrictions have not been breached.
 - Maximum 7 changes for Market & Sector alignment per roll
- **Step 4:** In the constituent list obtained after Step 3, replace entities with higher ranked entities in the Liquidity List from the same Market & Sector, if any.

Probable Series 32 Constituent List

ALIBABA GROUP HOLDING LIMITED	CNOOC LIMITED	PEOPLE'S REPUBLIC OF CHINA	STATE GRID CORPORATION OF CHINA
BAIDU INC	DBS BANK LTD.	PETAMINA PERSERO PT	SUN HUNG KAI PROPERTIES LIMITED
BANK OF CHINA LIMITED	HUTCHISON WHAMPOA LIMITED	PETROLIAM NASIONAL BERHAD (PETRONAS)	SWIRE PACIFIC LIMITED
CAPITALAND LIMITED	ICICI BANK LIMITED	POSCO	TELEKOM MALAYSIA BERHAD
CHINA CONSTRUCTION BANK CORP	INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	RELIANCE INDUSTRIES LIMITED	TENCENT HOLDINGS LTD
CHINA DEVELOPMENT BANK	KEB HANA BANK	REPUBLIC OF INDONESIA	THE EXPORT-IMPORT BANK OF CHINA
CHINA HUARONG ASSET MANAGEMENT COMPANY LTD.	KINGDOM OF THAILAND	REPUBLIC OF KOREA	THE EXPORT-IMPORT BANK OF KOREA
CHINA NATIONAL CHEMICAL CORP	KOOKMIN BANK	REPUBLIC OF THE PHILIPPINES	THE HONGKONG LAND COMPANY, LIMITED
CHINA PETROCHEMICAL CORPORATION	KOREA ELECTRIC POWER CORPORATION	SINGAPORE TELECOMMUNICATIONS LIMITED	THE KOREA DEVELOPMENT BANK
CITIC LTD	MALAYSIA	STATE BANK OF INDIA	UNITED OVERSEAS BANK LIMITED

Summary of Changes Vs. Series 31

Incoming			Outgoing		
Entity	Sector	Market	Entity	Sector	Market
CHINA HUARONG ASSET MANAGEMENT COMPANY LTD.	Financials	CHINA	BANK OF INDIA	Financials	INDIA
CHINA CONSTRUCTION BANK CORP	Financials	CHINA	OVERSEA-CHINESE BANKING CORP LTD	Financials	SINGAPORE
CHINA NATIONAL CHEMICAL CORP	Non-Financials	CHINA	INDUSTRIAL BANK OF KOREA	Financials	SOUTH KOREA
CITIC LTD	Non-Financials	CHINA	WOORI BANK	Financials	SOUTH KOREA
BAIDU INC	Non-Financials	CHINA	GS CALTEX CORP	Non-Financials	SOUTH KOREA
STATE GRID CORPORATION OF CHINA	Non-Financials	CHINA	KT CORPORATION	Non-Financials	SOUTH KOREA
PERTAMINA PERSERO PT	Non-Financials	INDONESIA	SK TELECOM CO., LTD.	Non-Financials	SOUTH KOREA

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