



markit

**Markit iTraxx Australia**

**Index Rules**

**March 2008**

**Contents**

1 General Rules ..... 3

2 Index Construction ..... 4

2.1 *Liquidity Poll*..... 4

2.2 *Membership determination* ..... 4

2.3 *First to Default Baskets* ..... 4

2.4 *Reference Obligations* ..... 4

2.5 *Coupon Levels and Recovery Rates*..... 4

3 Changes to the Indices Between Roll Dates..... 5

3.1 *Changes to the Reference Obligations* ..... 5

3.2 *Changes to Entity Names*..... 5

4 Further Information ..... 6

## 1 General Rules

- I. The iTraxx<sup>®</sup> indices are owned, managed, compiled and published by International Index Company Limited/ Markit.
- II. The roll date for each index is March 20<sup>th</sup> and September 20<sup>th</sup>. The new indices start on the roll date, or the following business day if the roll date is not a business day.
- III. Upon each roll the index will launch with 5¼ and 10¼ year maturities. The maturity date is always June 20<sup>th</sup> for the roll in March and December 20<sup>th</sup> for the roll in September.
- IV. Entities are weighted equally in all indices. If the number of index constituents cannot be divided equally to two decimal places, weighting adjustments (+/- 0.01%) are made in alphabetical order.
- V. All data and information submitted by market makers to Markit are treated in strict confidence.

## 2 Index Construction

The iTraxx<sup>®</sup> Australia index comprises 25 investment grade rated entities.

### 2.1 Liquidity Poll

**Each market maker submits to Markit a list of the most liquid traded entities based on the following criteria:**

- Trading volumes of each entity are aggregated by market makers
- Trading volumes of the past 12 months are used
- For bank names, both subordinated and senior volumes are combined
- All internal transactions are excluded from the volume statistics, e.g. those with an internal prop desk

### 2.2 Membership determination

- The entity, the parent company of the entity or a subsidiary of the entity has to be listed on the Australian Stock Exchange.
- All entities must be rated investment grade by Fitch, Moody's or S&P. This translates into a minimum rating of Baa3 from Moody's and BBB- from Fitch or S&P. If an entity is rated by two or more agencies, the lowest rating is used.
- IIC aggregates the volume ranked lists from market makers to compute final liquidity ranking for each entity. The top 25 most liquid entities are selected from the volume ranked list to comprise iTraxx Australia
- No more than 5 bank entities may be included in the index.

### 2.3 First to Default Baskets

- The following standard FTD baskets will be traded:
  - High Beta
  - Diversified
- The High Beta basket comprises the 5 non-financial entities with the highest spread from the top 15 most liquid entities.
- The Diversified basket comprises 5 entities and includes the most liquid entity from each iTraxx sector (Autos, Consumer, Energy, Financial, Industrials, TMT) - if represented in the Australia index. Entities already in the High Beta basket are excluded.
- 5-year mid-spreads on the last business day of the month prior to roll date from Markit Group are used.

### 2.4 Reference Obligations

The reference obligations for the reference entities are obtained from Markit Group's Reference Entity Database (RED) in conjunction with input from iTraxx market makers. For bank entities sub reference obligations are used.

### 2.5 Coupon Levels and Recovery Rates

On the second business day preceding the roll date, a telephone poll is initiated by IIC to determine the coupons and recovery rates for each index. Coupon levels are rounded to the nearest 5 basis points and recovery levels to the nearest 5%.

### **3 Changes to the Indices between Roll Dates**

#### **3.1 Changes to the Reference Obligations**

In the event that IIC receives requests from three or more market makers that the reference obligation of an entity should be replaced, IIC will identify one new reference obligation for such entity, based on RED and on input from iTraxx market makers. A poll is then initiated by IIC. If a majority of the market makers participating in the poll agrees that such replacement should be made, a new annex will be published by Markit Group, which will be identical to the previous annex, save for the fact that the reference obligation for such entity will be as agreed in the poll.

#### **3.2 Changes to Entity Names**

If a reference entity changes its legal name, the relevant index annexes containing this reference entity will be updated to the new name (without publishing a new version of the annex). The effective date of the name change (i.e. the date upon which the reference entity changed its name) is specified in the updated annex.

## 4 Further Information

International Index Company Limited (Markit)  
Goetheplatz 5  
60313 Frankfurt  
Germany

Phone: +49 (0)69 299 868 140  
Fax: +49 (0)69 299 868 149  
E-mail: [itraxx@indexco.com](mailto:itraxx@indexco.com)  
Internet: [www.indexco.com](http://www.indexco.com)  
[www.markit.com](http://www.markit.com)

- Licences and Data

IIC/ Markit owns all iTraxx data and indices and the intellectual property rights therein. A licence is required from Markit to create and/or distribute any product that uses, is based upon or refers to any iTraxx index or iTraxx data.

- Ownership

IIC is a wholly-owned subsidiary of Markit Group.

- Other index products

IIC/ Markit owns, manages, compiles and publishes the iBoxx cash bond indices.