



markit

**Markit iTraxx Japan**

**Index Rules**

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## 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 iTraxx Japan main index will launch with a 5¼ maturity. 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 iTraxx® Japan

### 2.1 Liquidity Poll

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

- 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
- Markit aggregates the volume ranked lists from market makers to compute final liquidity ranking for each entity

### 2.2 Membership determination

- The iTraxx® Japan main index comprises 50 investment grade rated Japanese entities. Fitch, Moody's, R&I, and S&P ratings are considered. If an entity is rated by two or more agencies, the highest rating is used.
- The top 50 entities with a Nikkei industry cap of 10 are selected from the volume ranked list to form iTraxx Japan.
- At the time of an index roll, index composition is initially set to be the same as the previous series. Existing constituents will be excluded from the new index if they now rank #76 or lower. They are replaced by the most liquid new entities. New entities ranked #25 or higher are included automatically, replacing the least liquid entities of the updated overall 50-name list.

### 2.3 First to Default Basket

- The following standard FTD basket will be traded:
  - Diversified
- The Diversified basket comprises the most liquid entity from each of the following sectors in the 50-name index: Financial; Transportation & Utility; Consumption; Materials; Capital goods & others; Technology.

### 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 names in the overall index, senior reference obligations are used where possible.

### 2.5 Coupon Levels and Recovery Rates

On the second business day preceding the roll date, a telephone poll is initiated by Markit 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 Markit receives requests from three or more market makers that the reference obligation of an entity should be replaced, Markit will identify one new reference obligation for such entity, based on RED and on input from iTraxx<sup>®</sup> market makers. A poll is then initiated by Markit. 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

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- 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.