

## **Index Methodology for the Tranche ABX indexes (“Tranche ABX Index Rules”)**

### **1 ADMINISTRATION OF THE INDEX**

1.1 The Tranche ABX Index shall be constituted from reference obligations in applicable sub-indexes of the ABX.HE Index as described in Section 3 hereof. CDS and/or the Administrator for the Tranche ABX Index (the “Administrator”) shall from time to time publish an updated list of Eligible Members participating in the determination of the Tranche ABX Index (the “Tranche ABX Participants”). A new Tranche ABX Index, and each sub-index thereof, will be launched on February 2 (or the next Business Day in the event that such day is not a Business Day) and August 2 (or the next Business Day in the event that such day is not a Business Day) of each calendar year (each such date, a “Roll Date”); provided that the first Roll Date shall be February 14, 2007 and provided, further, that if a Member Majority votes to change the Roll Date, the Roll Date shall be the date designated by such Member Majority.

1.2 The determination of the Tranche ABX Index will be administered by the Administrator based upon the rules and procedures provided herein. All information submitted by Tranche ABX Participants to the Administrator shall be received by the Administrator in confidence.

1.3 Except as otherwise provided herein, these Tranche ABX Index Rules will be subject to the General Rules of the Index Methodology for Dow Jones CDX Indices (other than Section 1.3 thereof).

1.4 With respect to any vote pursuant to these Tranche ABX Index Rules, the outcome shall be determined by the votes of a majority of all Tranche ABX Participants (a “Member Majority”).

1.5 All times referred to in these Tranche ABX Index Rules refer to local time in New York, New York.

### **2 ELIGIBILITY RULES**

2.1 (a) It is the obligation of each Tranche ABX Participant to provide within the time frame specified by the Tranche ABX Pricing Rules end of day prices, and other periodic prices, that are duly solicited by the Administrator on each day other than Saturday, Sunday, and federal holidays of the United States of America (“United States Federal Holidays”).

(b) The Administrator shall monitor and maintain a record of such participation by the Tranche ABX Participants. At the end of each day that the Administrator has solicited prices from a Tranche ABX Participant, the Administrator will send a written notice to such Tranche ABX Participant informing such Tranche ABX Participant whether it has met its obligation to provide prices for such day, and if it has not met such obligation, briefly stating how it has failed to meet such obligation. If during a Determination Period (as defined in the ABX.HE Index Rules, a Tranche ABX Participant has failed to provide prices for Specified Tranches (as defined below) of any sub-index of the most recent Tranche ABX Index by the applicable deadline more than ten percent (10%) of the time, the Administrator shall send such Tranche ABX Participant a

written warning notifying such Tranche ABX Participant of its failure to perform its obligations. If, during any Determination Period, (i) a Tranche ABX Participant has failed to provide prices for Specified Tranches of any sub-index of the most recent Tranche ABX Index by the applicable deadline more than fifteen percent (15%) of the time or (ii) a Tranche ABX Participant has failed to provide prices by the applicable deadline for more than 15% of the required submissions for all Prior Tranche ABX Sub-Indexes in the aggregate, the Administrator shall send such Tranche ABX Participant a written notice advising that such Tranche ABX Participant has been “Suspended” for purposes of these Tranche ABX Index Rules and informing it of the reason(s) it has been Suspended. Such Tranche ABX Participant shall remain Suspended until the end of a Determination Period during which the Tranche ABX Participant (i) has provided relevant prices for each sub-index of the most recent Tranche ABX Index by the applicable deadline at least eighty five percent (85%) of the time during such Determination Period and (y) has provided prices by the applicable deadline for at least 85% of the required submissions for all Prior Tranche ABX Sub-Indexes in the aggregate. “Prior Tranche ABX Sub-Index” means a sub-index for a Tranche ABX Index that (i) was launched on a Roll Date prior to the most recent Roll Date and (ii) is determined by the Administrator or CDS to be the subject of outstanding credit derivative transactions.

2.2 At any time, a Tranche ABX Participant shall be deemed not “Eligible” with respect to any vote under these Tranche ABX Index Rules, if at such time the Tranche ABX Participant remains Suspended pursuant to Section 2.1 above. Notwithstanding the foregoing, CDS shall at all times have the right to waive any or all of the foregoing criteria and to deem a Tranche ABX Participant to be Eligible.

3 DETERMINATION OF THE TRANCHE ABX INDEX

3.1 For each Roll Date, the Tranche ABX Index shall consist of the combination of (i) the ABX.HE Index for such Roll Date and (ii) the ABX.HE Index for the immediately preceding Roll Date; provided that if the ABX.HE Index for the current Roll Date consists of more than 40 reference entities, the Tranche ABX Index for the current Roll Date will solely consist of the ABX.HE Index for the current Roll Date.

3.2 The Tranche ABX Index shall have two sub-indexes, constituted as follows:

The “BBB Sub-index” (TABX.BBB) shall consist of the reference obligations in the BBB Sub-index of the ABX.HE Index or Indexes included in the Tranche ABX Index.

The “BBB- Sub-index” (TABX.BBB-) shall consist of the reference obligations in the BBB- Sub-index of the ABX.HE Index or Indexes included in the Tranche ABX Index.

For purposes of these Tranche ABX Index Rules, the “Specified Tranches” for these sub-indexes shall be as follows:

<b>Sub-Index</b>	<b>Attachment Point (%)</b>	<b>Exhaustion Point (%)</b>
BBB	0	3
BBB	3	7
BBB	7	12

<b>Sub-Index</b>	<b>Attachment Point (%)</b>	<b>Exhaustion Point (%)</b>
BBB	12	20
BBB	20	35
BBB	35	100
BBB-	0	5
BBB-	5	10
BBB-	10	15
BBB-	15	25
BBB-	25	40
BBB-	40	100

3.3 Promptly following the determination thereof and, in any event, no later than 11:00 a.m. on the earlier of (i) the first Business Day following the date of such determination and (ii) four Business Days prior to the Roll Date, the Administrator will simultaneously provide to the Tranche ABX Participants and publicly disseminate (through its website or as otherwise agreed between CDS and the Administrator) the composition of the new Tranche ABX Index and each sub-index to be launched on that Roll Date. At such time, the Administrator will also publicly disseminate (through its website or as otherwise agreed between CDS and the Administrator) the current list of Tranche ABX Participants for the new Tranche ABX Index.

3.4 No later than two Business Days prior to the Roll Date, the Administrator will provide to the Tranche ABX Participants a draft of the annex for the Tranche ABX Index and its sub-indices.

3.5 At or about 9:00 a.m. on the Business Day immediately prior to the Roll Date (the “Fixed Rate Determination Date”), the fixed rate for each Specified Tranche of a sub-index for the new Tranche ABX Index for purposes of transactions under the ABX Tranche Transactions Standard Terms Supplement will be determined by the Administrator by soliciting each Tranche ABX Participant to submit an average mid-market spread for such Specified Tranche (without limit on the level submitted and in increments of 1 basis point). The Administrator will re-solicit Tranche ABX Participants until at least two-thirds of the Tranche ABX Participants (rounded down) have submitted such spreads. The Administrator shall rank such submissions for each such Specified Tranche from lowest to highest spread and discard the top and bottom quartiles thereof (the number of submissions  $q$  in each discarded quartile will be given by  $q = \text{int}(N_s/4)$  where  $N_s$  is the total number of submissions). The fixed rate for each Specified Tranche shall be the lesser of (i) the average, as determined by the Administrator, of the remaining submissions for such Specified Tranche (rounded up to the nearest basis point) and (ii) 500 basis points.

The Administrator will not notify any Tranche ABX Participant of, or otherwise publicize, the fixed rates for Specified Tranches of the new Tranche ABX Index until after 5:00 p.m. on the Fixed Rate Determination Date, at which time the Administrator will promptly notify the Tranche ABX Participants and publicly disseminate (through its website or as otherwise agreed between CDS and the Administrator) such fixed rates. The final annex for each sub-index for the new Tranche ABX Index will be publicly disseminated by the Administrator on its

website (or as otherwise agreed between CDS and the Administrator) after 5:00 p.m. on the Fixed Rate Determination Date but not later than 8:00 a.m. on the next Business Day.

4. TRANCHE ABX INDEX DAILY FIXING PROCESS AND CALCULATION RULES  
(the “Tranche ABX Pricing Rules”)

For each Specified Tranche of a sub-index for the current Tranche ABX Index and for each of the most recent Prior Tranche ABX Sub-Indexes, the Administrator will solicit closing mid-market prices for transactions under the ABX Tranche Transactions Standard Terms Supplement in each Specified Tranche quoted as a positive or negative percentage to two decimal places of initial tranche notional amount (excluding any accrued fixed amount) from all Tranche ABX Participants. In the case of the Tranche ABX Index determined as of the most recent Roll Date, these prices will be submitted either by spreadsheet (or any other electronic delivery format designated as acceptable by the Administrator) or, later, via the Administrator’s automated mechanism between 3:00 p.m. and 4:00 p.m. on each Business Day (or such other times as may be specified by the Administrator); provided that if such Business Day is a day that the Bond Market Association recommends closing the fixed income markets early, prices will be submitted within thirty (30) minutes after the time set by the Bond Market Association for the closing of the fixed income markets. In the case of any other Prior Tranche ABX Sub-Index, prices will be submitted for the close of business on the last Business Day of each calendar week and on the last Business Day of each calendar month, in each case, in the manner provided above no later than the close of business on the first Business Day following such day.

The Administrator will employ a filtering process that mirrors the process used by the British Banker’s Association to calculate LIBORs. This entails taking the received quotes, discarding the top and bottom quartiles and taking the arithmetic mean of what remains. The quoted fixing value will be a percentage reported to two decimal places. The number of points  $q$  in each discarded quartile will be given by  $q = \text{int}(N_c/4)$  where  $N_c$  is the total number of contributors. Examples are shown in the table below:

## Table of Discarded Quartile Examples

Number of Contributors	Upper Quartile Discards	Lower Quartile Discards	Number of Quotes used in Fixing
1	0	0	No fixing calculated
3	0	0	No fixing calculated
4	1	1	2
5	1	1	3
7	1	1	5
8	2	2	4
11	2	2	7
12	3	3	6
15	3	3	9
16	4	4	8
19	4	4	11
20	5	5	10

In order to calculate the official fixing value for a Specified Tranche of a particular sub-index, the Administrator must receive closing mid prices from a number of Tranche ABX Participants (the “Minimum Fixing Number”) equal to the greater of (i) 50% of the Tranche ABX Participants and (ii) five Tranche ABX Participants. If, on any date, the Administrator receives fewer closing mid prices for a Specified Tranche of a sub-index than the Minimum Fixing Number, the Administrator will not publish a fixing value for such Specified Tranche of such sub-index on such date. The formula for determining the Minimum Fixing Number, the methodology for calculating an official fixing value and the list of sub-indexes for which an official fixing value will be determined will be subject to change by a vote of a Member Majority.