



iTraxx[®] Europe Index Family

Index Rules

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1. General Rules

- 1.1 The iTraxx[®] indices are owned, managed, compiled and published by International Index Company Limited (IIC).
- 1.2 The roll date for each index is March 20th and September 20th. The new indices start on the roll date, or the following business day if the roll date is not a business day.
- 1.3 For iTraxx[®] Europe main and iTraxx[®] HiVol 3, 5, 7 and 10-year maturities are traded, and for Crossover and sector sub-Indices 5 any 10-year maturities are traded. The maturity date is always June 20th for the roll in March and December 20th for the roll in September.
- 1.4 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.
- 1.5 Publication dates:
 - On the seventh business day preceding the roll date, the provisional lists for the iTraxx[®] indices are published on IIC's website.
 - On the fourth business day preceding the roll date, the membership lists (still subject to rating changes) for the iTraxx[®] indices are published on IIC's website at 17.00 London. Rating changes that could affect the index membership will be taken into account if IIC is notified prior to 17.00 London on the third business day preceding the roll date – in this case a new version of the index membership will be published on IIC's website at 14.00 London on the second business day preceding the roll date.
- 1.6 Conference Calls:
 - Conference calls are organized by IIC for the market makers to agree on index composition, reference obligations, coupon levels and recovery rates.
 - Each market maker has the right to participate in the conference calls.
 - Each institution has one vote.
 - To be quorate a conference call must be attended by at least 40% of the market makers contributing data to the index roll process. An institution may submit opinions to IIC on matters to be voted upon by email if they cannot attend a call.
 - Voting is by simple majority of those present or having previously submitted an opinion by email to IIC. Decisions made in a conference call are binding.
- 1.7 All data and information submitted by market makers to IIC are treated in strict confidence.

2. iTraxx[®] Europe

The iTraxx[®] Europe index comprises 125 investment grade rated European entities.

2.1. Liquidity Poll

Each market maker submits to IIC a list of entities based on the following criteria:

- Incorporated in Europe.
- Those entities with the highest CDS trading volume, as measured over the previous 6 months. The list is ranked according to trading volumes, i.e. the entity with the highest trading volume is ranked #1.
- Volumes for financial entities are derived from Subordinated (Lower Tier 2) transactions
- Internal transactions (e.g. those with an internal prop desk) are excluded from the volume statistics.
- Volumes for entities that fall under the same ticker, but trade separately in the CDS market, are summed to arrive at an overall volume for each ticker. The most liquid entity under the ticker qualifies for index membership.

2.2. Membership determination

- All entities must be rated investment grade by Fitch, Moody's or S&P. Entities rated BBB-/Baa3 with negative outlook or below are excluded. If an entity is rated by two or more agencies, the lowest rating is considered.
- If it is confirmed that one entity has more than 50% of the voting rights of another entity and both trade under different tickers, then the most liquid entity qualifies for index membership.
- Affiliates of an entity included in the index, already guaranteed by that entity, are eliminated. Non-guaranteed wholly-owned subsidiaries of an entity are eligible.
- Each entity is assigned to its appropriate iTraxx sector and is ranked within its sector by averaging the liquidity ranking of the market makers.
- Index composition is initially set to be the same as the previous series. Ineligible entities (downgraded, defaulted, changed sector or merged) are excluded. Any entities in the top 50% of the number of entities in that sector not already in the index are added. E.g. in the Autos sector, any entity in the top 5 by liquidity ranking, but not in the current index, is included, and the lowest ranking entity in that sector is eliminated. Entities ranked lower than 125% of the number of entities in the sector are removed and replaced by the next most liquid entity not yet in the index. E.g. if an entity in the previous series' Autos index is ranked #14 in the new Autos ranking, it is excluded. Entities ranked below 150 in the overall master list that includes all sectors, are removed and replaced by the most liquid entity in that sector that is not yet in the index. If the replacement is less liquid than the entity to be dropped, no change is made.
- The final portfolio comprises 125 entities, and is constructed by selecting the highest ranking entities in each sector below, subject to the restrictions described below:
 - 10 Autos
 - 30 Consumers
 - 20 Energy
 - 20 Industrials
 - 20 TMT
 - 25 Financials (separate Senior & Subordinated indices)
- iTraxx[®] Non-Financials comprises the 100 non-Financial entities from the iTraxx[®] Europe index.
- iTraxx[®] HiVol comprises the 30 entities with the widest 5-year credit default swap spreads from the iTraxx[®] Europe non-Financials index. The 5-year mid-spreads published by Markit Group on the last business day of the month prior to roll date determine eligibility.

2.3. First to Default Baskets

- The following standard FTD baskets will be traded:
 - Autos
 - Consumers
 - Energy
 - Financials senior
 - Financials subordinated
 - Industrials
 - TMT
 - Diversified
 - HiVol
 - Crossover

- 5-year mid-spreads on the last business day of the month prior to roll date are retrieved from Markit Group for every entity in each iTraxx sector. For each sector, entities with no spread, the 2 with the greatest spread and the 2 with the smallest spread are removed. The 5 next most liquid entities constitute the basket.
- The Financials Senior and Sub baskets contain the same entities, based on liquidity and spread of sub (LT2). No more than 2 insurers are permitted.
- Diversified comprises the most liquid entity from each of the following baskets: Autos, Consumers, Energy, Financials, Industrials, TMT.
- Constituents of the FTD baskets will only change under the following conditions:
 - The entity is no longer in the relevant iTraxx index sector, or
 - the entity is one of the 2 with the greatest or smallest spreads in its basket.
 - An entity will be replaced by the next most liquid eligible name .

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.

2.5. Coupon Levels and Recovery Rates

On the third 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. iTraxx[®] Crossover

The iTraxx[®] Crossover index comprises 50 European entities, which number may be increased from time to time at an index roll upon reasonable notice if warranted by market conditions.

3.1. Liquidity Poll

Each market maker submits to IIC a list of entities based on the following criteria:

- Incorporated in Europe.
- Both financial and non-financial entities are eligible
- Those entities with the highest CDS trading volume, as measured over the previous 6 months. The list is ranked according to trading volumes, i.e. the entity with the highest trading volume is ranked #1.
- Internal transactions (e.g. those with an internal prop desk) are excluded from the volume statistics.
- Volumes for entities that fall under the same ticker, but trade separately in the CDS market, are summed to arrive at an overall volume for each ticker. The most liquid entity under the ticker qualifies for index membership.

3.2. Membership determination

- Entities rated BBB-/Baa3/BBB- (Fitch/Moody's/S&P) with stable outlook or higher are excluded. If an entity is rated by two or more agencies, the lowest rating is considered.
- Only entities with more than €100 million publicly traded securities at close of business on the fifth business day preceding the roll date in a currency that is deliverable into a European CDS contract will be included. For new issues of the relevant entities, the settlement date of the issue will be considered. Private placements will not be considered.
- If it is confirmed that one entity has more than 50% of the voting rights of another entity (and both trade under different tickers), then the most liquid entity qualifies for index membership.
- Affiliates of an entity included in the index, already guaranteed by that entity, are eliminated. Non-guaranteed wholly-owned subsidiaries of an entity are eligible.
- Entities are eligible that have a spread at least twice the average spread of the constituents of the iTraxx[®] Non-Financial Index, as determined for the next index roll, with a maximum of 1250 bps, or upfront of 35%. 5-year mid-spreads published by Markit Group for the last business day of the month prior to roll date determine eligibility (E.g. if the average spread of the entities in the iTraxx[®] Non-Financial Index effective 20 March was 40 basis points on 28 February, then only those entities whose spread was 80 or higher on 28 February qualify).
- The final portfolio comprises the 50 highest ranking entities.

3.3. 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.

3.4. Coupon Levels and Recovery Rates

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

4. Changes to the Indices Between Roll Dates

4.1. Procedure in the case of deterioration in the liquidity of an index

In the case of deterioration in the liquidity of an index (e.g., due to the distress of an entity or a possible credit event in relation to an entity):

- A poll is initiated by IIC following receipt of a request from three or more market makers that a new annex be published in relation to the relevant index/indices zero weighting such entity. If the third such request is received before 12.00 midday London time, IIC will conduct a poll on that same business day. If the third such request is received later than 12.00 midday London time, the poll will take place from 11 am London time on the following business day. In either case, polling will terminate at 4 pm London on the day the poll is conducted. The result of the poll will be published by 5 pm London time on the day of the poll.
- For a poll to be valid, a majority of market makers contributing to the index roll process must participate (as determined by IIC). Of those participating, 75% must be in favour of the publication of a new annex zero weighting the relevant entity in the index/indices.
- If IIC determines that a poll is invalid, a one-week period commences (from and including that business day) during which the three market makers who initiated the poll may not nominate the same entity again for zero weighting in an index/indices. If at least three other market makers request publication of a new annex zero weighting the same entity in the relevant index/indices, a further poll is initiated by IIC in accordance with the provisions described above.
- If the result of a poll is positive (as determined by IIC), a new annex will be published by Markit Group, which will be identical to the previous annex, save for the fact that the annex date will be different and the relevant entity will have a 0% weighting. Market participants have the option to reference either the old or the new annex.

4.2. Successor Entities

Pursuant to the operation of current ISDA successor provisions, a non-European entity may become the successor of an entity in an index. In this case, it may be replaced by a non-European entity, which, however, will not be eligible for the next index series.

4.3. 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.

4.4. 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.

5. Further Information

International Index Company Limited
Goetheplatz 5
60313 Frankfurt
Germany

Phone: +49 (0)69 299 868 140

Fax: +49 (0)69 299 868 149

E-mail: itraxx@indexco.com

Internet: www.indexco.com

- Licences and Data

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- Ownership

IIC is owned by ABN AMRO, Barclays Capital, BNP Paribas, Deutsche Bank, Deutsche Börse, Dresdner Kleinwort, Goldman Sachs, HSBC Bank, JP Morgan, Morgan Stanley and UBS.

- Other index products

IIC also owns, manages, compiles and publishes the iBoxx[®] cash bond indices.