

# **Rules for the Construction and Maintenance of the NOMXI Benchmark Bond Indexes**

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## **Definitions**

**The Exchange:** NASDAQ OMX Iceland hf.

## Introduction

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### 1.1 Background

This booklet describes how the NOMXI Benchmark Bond Indexes are calculated. It is aimed at users, investors and others interested in the construction and computation of the index.

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### 1.2 The indexes

The NOMXI Benchmark Bond Index family consists of three indexes<sup>1</sup>

- NOMXI Benchmark Bonds
- NOMXI Nominal Benchmark Bonds
- NOMXI Inflation-Linked Benchmark Bonds

The purpose of the NOMXI Benchmark Bond Indexes is to create a highly liquid and stable universe. The indexes are capped market value weighted total return indexes and are calculated in Icelandic kronas (ISK). All three indexes are also available in a market weighted non-capped version.

The Benchmark Bond Indexes have a base value of 1000 and a base date of December 28, 2012.

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### 1.3 Trademarks and intellectual property rights

NASDAQ OMX is the sole and exclusive owner of all rights, titles and interest in and to the indexes<sup>2</sup>. Any products based on the indexes require permission by NASDAQ OMX. NASDAQ OMX carries out the periodical and daily maintenance of the indexes, such as calculating and distributing the index values and calculation parameters, in accordance with “The Rules for the Construction and Maintenance of the NOMXI Benchmark Bond Indexes”.

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### 1.4 Information Policy

Changes to the index composition of the NOMXI Benchmark Bond Indexes, rule changes and any other adjustments are published in index notices by the Exchange.

Deadlines for announcements:

- **Rule amendments:** Material changes to the rules are normally announced 3 months before they are put into effect.
- **Periodic index composition:** The composition of the NOMXI Benchmark Bond Indexes including weights and constituents is published at least one day before the effective date.

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<sup>1</sup> Short names and ISIN codes can be seen in Appendix I.

<sup>2</sup> The use of the indexes is the sole responsibility of the user. The Exchange shall not be liable for any loss or damage whatsoever or howsoever caused or arising in connection with the use of the indexes.

## 2 Construction and Maintenance

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### 2.1 Eligible securities

In principle, all benchmark government guaranteed bonds listed and traded on NASDAQ OMX Iceland are eligible for inclusion. However, certain criteria such as liquidity may make a bond ineligible for index purposes. For example, as a first rule a bond must have an active two-sided market maker agreement for it to be eligible for the indexes. However, if possible each index shall at each time include at least 6 bonds. Thus, if there is not a sufficient number of bonds with a two-sided market maker agreement then bonds and bills with a one-sided market maker agreement and a defined official closing price according to the method set forth by the Exchange will be considered for inclusion in decreasing order of maturity until the number of bonds in the index in question reaches six. Normally, a bond must have at least a one-sided active market maker agreement in place for it to be deemed eligible for the indexes.

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### 2.2 NASDAQ OMX Iceland Benchmark Bond Indexes

#### 2.2.1 General

The purpose of the indexes is to have a highly liquid composition of benchmark bonds that reflects the Icelandic government guaranteed fixed-income investment universe and functions as a desired investment tool for all types of investors, fund managers etc. in the marketplace. The index portfolio is fixed between revisions.

#### 2.2.2 Selection of the composition

- **NOMXI Benchmark Bonds**

All government guaranteed benchmark bonds with a two-sided market maker agreement are eligible for the index. If there are fewer than six bonds that satisfy this criterion then all government guaranteed benchmark bonds and bills with an active one-sided market maker agreement and a defined official closing price according to the method set forth by the Exchange shall also be eligible for index inclusion. Bonds and bills with a one-sided market maker agreement shall then be selected in decreasing order of maturity until the number of index constituents reaches six if possible.

- **NOMXI Nominal Benchmark Bonds**

All nominal government guaranteed benchmark bonds with a two-sided market maker agreement are eligible for the index. If there are fewer than six bonds that satisfy this criterion then all nominal government guaranteed benchmark bonds and bills with an active one-sided market maker agreement shall also be eligible for index inclusion. Bonds and bills with a one-sided market maker agreement and a defined official closing price according to the method set forth by the Exchange shall then be selected in a decreasing order of maturity until the number of index constituents reaches six if possible.

- **NOMXI Inflation-Linked Benchmark Bonds**

All inflation-linked government guaranteed benchmark bonds with a two-sided market maker agreement are eligible for the index. If there are fewer than six bonds that satisfy this criterion then all inflation-linked government guaranteed benchmark bonds with an active one-sided market maker agreement and a defined official closing price according to the method set forth by the Exchange shall also be eligible for index inclusion. Bonds with a one-sided market maker agreement shall then be selected in decreasing order of maturity until the number of index constituents reaches six if possible.

## Rules for the Construction and Maintenance of the NOMXI Benchmark Bond Indexes

The indexes are reviewed monthly. Newly listed benchmark bond classes will then become eligible and bonds can be removed from the indexes. If a bond class no longer meets the index criteria, it will be dropped from the portfolio at the next monthly review. However, when it is foreseeable that a certain bond class will no longer meet the index criteria or mature within the next calendar month, it will be dropped from the portfolio in the monthly review.

If the benchmark system is eliminated in the future, the Exchange will announce its response specifically; such a response will aim at having “benchmark-equivalent” classes in the indexes and reflect the (probable) trading volume. The Exchange also reserves the right to respond to other special circumstances and will give specific notice of any actions in such cases.

### **2.2.3 Market capitalization limit (Capping)**

The maximum target weight for each bond in the indexes is 30%. The index is reviewed on a monthly basis to ensure that this criterion is not broken for extended periods. At the end of the 25<sup>th</sup> calendar day of each month each instrument’s weight is reviewed. The revised composition is published no later than market open on the last trading day of the month and takes effect on the first trading day of the following month. If the largest weight is greater than 30% the weight of the bond in question is capped at 29% at the monthly review. The capping results in the proportional increase of weights of non-capped index constituents. Should it happen as a result of the capping that the weight of another bond exceeds 29%, it is capped as well. This procedure is recursively repeated until no further capping is necessary.

## 3 Index Calculation

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### 3.1 General

The Exchange calculates and disseminates the NOMXI Benchmark Bond Index values at the end of each trading day.

### 3.2 Formula

The main objective of the index calculation is to reflect the changes in the value of a portfolio consisting of the index constituents.

The NOMXI Benchmark Bond Indexes are calculated by using the following formula.

$$I_t = \frac{\sum_{i=1}^n q_{i,t} * (p_{i,t} + j_{i,t})}{\sum_{i=1}^n q_{i,t} * p_{i,t-1}} * I_{t-1},$$

Where

$I_t$  = Index level at time t

$q_{i,t}$  = Nominal amount of bond i in the index at time t

$p_{i,t}$  = Settlement price (dirty price) derived from the last traded market price or a crossing best bid/ask price of bond i at the end of the day t.

$j_{i,t}$  = Adjustment factor for adjusting the price of a constituent security for interest payments and installments (inflation adjusted where applicable).

The formula yields the index value at the end of period t, represented by the product of the previous index value and the periodic percentage change in the market capitalization (adjusted for payments of interest and installments (inflation adjusted where applicable)). I.e.  $I_t = (1+R) * I_{t-1}$ , where R represents the periodic percentage change in the value of the portfolio consisting of the index constituents.

### 3.3 Settlement price

Settlement price refers to the dirty price derived from the last traded market price on the Exchange or a crossing bid/ask price at the end of the day.

If a bond does not trade on a given day the most recent settlement price is used unless bid/ask price at the end of the day crosses that price.

### 3.4 Nominal amount

The nominal amount of a constituent applied in the index,  $q_{i,t}$  in the formula in 3.2 is a result of a monthly review and is fixed in the period between reviews. The nominal amount applied in the indexes is based on the outstanding

nominal amount on the 25<sup>th</sup> calendar day of each month<sup>3</sup>. The new composition is published no later than market open on the last trading day of the month and takes effect on the first trading day of the following month.

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## **3.5 Payments of principle and interests**

### **3.5.1 Total Return**

To reflect the true performance of a market, payments of principle and interest (inflation adjusted where applicable) are reinvested in the index. The reinvestment is carried out through the adjustment factor  $j_{i,t}$  in the numerator of the index formula. This adjustment reinvests the payment, i.e. the sum of installments and interest (inflation adjusted where applicable) on day  $t$  in all index constituents in proportion to their weights in the index.

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<sup>3</sup> Nominal amounts do not include securities lending from issuers to primary dealers.



## **4 Limits of liability**

NASDAQ OMX assume(s) no liability for loss or damages related to or arising out of the use of the indexes. NASDAQ OMX expressly disclaims all warranties of accuracy, completeness, merchantability or fitness for a particular purpose with respect to the indexes. Neither NASDAQ OMX nor any third party make any express or implied warranties or representations in respect of the indexes, the results to be obtained by the use hereof or the value of the indexes at any given time.

## Appendix 1 – OMX Iceland Benchmark Bond Indexes

<b>Shortname</b>	<b>Full_name</b>	<b>ISIN</b>
NOMXIBB	NASDAQ OMX Iceland Benchmark Bonds	IS0000023364
NOMXIREAL	NASDAQ OMX Iceland Inflation-linked Benchmark Bonds	IS0000023323
NOMXINOM	NASDAQ OMX Iceland Nominal Benchmark Bonds	IS0000023349
NOMXIBBTA	NASDAQ OMX Iceland Benchmark Bonds – Total Amount	IS0000023356
NOMXIREALTA	NASDAQ OMX Iceland Inflation-linked Benchmark Bonds – Total Amount	IS0000023315
NOMXINOMTA	NASDAQ OMX Iceland Nominal Benchmark Bonds – Total Amount	IS0000023331