



April 26, 2009

Methodology for Calculating the PC-Bond Multi Dealer Pricing * (*patent pending)

Canadian Fixed Income Pricing including the DEX Universe Bond Index and the family of DEX Fixed Income Indices.

Previous to October 1st, 2007, the DEX Fixed Income Indices utilized 4 pm pricing from a Single Dealer source – Scotia Capital Inc.

As of October 1st, 2007 the DEX Fixed Income Indices moved to a 4 pm Multi Dealer Pricing model which provides a greater consensus on the valuation of the securities included in the indices. *The new Multi Dealer Pricing model is incorporated into an electronic system and method which has in turn been incorporated in to a world-wide patent application filing.* Prices for issues outside the indices also utilize the same 4pm Multi Dealer Pricing model and have moved from the single dealer price as of the following schedule:

Bonds	October 1, 2007
Strips (Coupons, Residuals & Packages)	November 1, 2007
MBS (Mortgage Backed Securities)	April 2, 2008
CMBS (Commercial Mortgage Backed)	March 8, 2009
BA's (Bankers Acceptances)	March 8, 2009

Currently the TSX / PC-Bond Group receives Fixed Income pricing contributions from the following eleven (11) leading Canadian dealers – (listed alphabetically):

BMO Nesbitt Burns
Casgrain & Company
CIBC World Markets
Desjardins Securities
HSBC Securities (Canada)
Laurentian Bank Securities
Merrill Lynch Canada
National Bank Financial
Scotia Capital
RBC Dominion Securities
TD Securities

Pricing data from these dealers is passed through two differing proprietary scrub mechanisms prior to being submitted to the final Standard Deviation Mean calculation listed below.

These two scrubs are designed to first eliminate extreme outliers or clearly defined erroneous data that would possibly distort later calculations.

These scrubs:

- utilize the PC-Bond database (by reviewing historical volatilities of daily yields)
- review lead dealer pricing on an issue by issue basis where there is a poor consensus from dealers regarding levels
- filter CDS data (Clearing and Depository Services for Canadian Securities.) to best identify dealer pricing that is most in line with recent trades (qualified by minimum trade size of \$500,000 par value). *As of April 26, 2009 the pricing mechanism has been enhanced to utilize CDS fixed income trade data posted end of day or early the next day (in addition to the current intra-day trade data filtering), upgrading the scrubbing process to utilize all possible known trade data for each instrument*
- compare Dealer to Dealer valuations for each instrument

Once the data has successfully passed through these two scrubbing mechanisms the pricing from each respective dealer is then put forth into the Standard Deviation Mean calculation.

The example below details how an issue that may have had ten original contributors has been pared down to just six prior to the Standard Deviation Mean calculation. The example also compares the benefits of the Standard Deviation Mean calculation to that of the Tops and Tails model.

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Example: 10 Year Provincial with six contributors, two being top heavy

Comparison of Standard Deviation Mean model (used by DEX Fixed Income Indices) to Top & Tail model (not used)

Standard Deviation Mean Model		Top & Tail Model	
	Mid Yield		Eliminate Top and Tail
Contributor A	4.67	Contributor A	4.67
Contributor B	4.68	Contributor B	4.68
Contributor C	4.66	Contributor C	out (Tail)
Contributor D	4.76	Contributor D	4.76
Contributor E	4.77	Contributor E	out (Top)
Contributor F	4.68	Contributor F	4.68
Initial Mean	4.70	Average (Yield Used)	4.698
Initial Std Dev	0.05		
Mean minus Std Dev	4.65		
Mean plus Std Dev	4.75		
Initial Median	4.68		
MID Yield outside of 4.65 and 4.75 are eliminated:			
MID Yields Used for final Mean			
Contributor A	4.6700		
Contributor B	4.6800		
Contributor C	4.6600		
Contributor F	4.6800		
Average Mean (Yield Used)	4.6725		

Disclaimer

PC-Bond* calculates and publishes the DEX Universe Bond Index and other DEX Fixed Income Indices at its own expense as an information service to financial market participants. The indices are published on a best-efforts basis, and do not constitute a recommendation to trade any particular security.

The indices are based on data believed to be reliable. No guarantee is made as to the accuracy, timeliness, or completeness of the data used in the indices. In the event a data input to a published index calculation is subsequently believed to be in error, we may at our sole discretion declare the data error to be immaterial to the published index value, and are under no obligation to re-calculate an already published index value. Index construction rules, guidelines, and practices may be changed at any time at our sole discretion, though we will endeavor to provide reasonable advance notice of such changes.

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