

## **The FTSE StableRisk Indices\***

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*Implicit in most asset allocation policies is a statistical assumption of "stationarity": the means, variances, and covariances of asset returns are assumed to be constant over time. This assumption is a reasonable approximation during normal market conditions, but fails dramatically during periods of market turmoil and dislocation. In such periods, market volatility is highly dynamic, correlations can jump to 100% in a matter of days, and risk premia can become negative for months at a time. FTSE and AlphaSimplex Group have developed a family of rule-driven (passive), transparent, and high capacity indices whose volatilities are re-scaled as often as daily with the goal of maintaining more stable risk levels. By stabilizing the risk of each asset class over time, the FTSE StableRisk Indices have the potential to capture the long-term risk premia of asset classes and simple strategies with less severe maximum drawdowns than those of traditional indices, which have no risk controls.*

## **INTRODUCTION**

FTSE, in partnership with AlphaSimplex Group, has created a family of indices designed to provide investors with transparent, investable, and passive investment opportunities that are dynamically risk-controlled. The FTSE StableRisk Indices track rules-based long-only investments in various asset classes in which the portfolio weights are dynamically rebalanced on a daily basis to a desired target volatility, with the goal of allowing investors to capture long-term expected-return premia with less extreme shifts in short-term risk levels. We believe that the StableRisk risk control mechanism yields more consistent risk exposures than traditional market-capitalization-weighted portfolios in which risk levels are allowed to drift freely with the market's volatility. The StableRisk concept is highly flexible and can be applied to individual markets, a variety of market tilts, and to rules-based portfolios such as long/short trend-following strategies (see, for example, *The FTSE StableRisk Trend Indices*, 2011). The initial set of FTSE StableRisk Indices provides exposure to each of four broad asset classes at a targeted level of volatility in a long-only framework covering, in aggregate, sixty-nine distinct global markets.<sup>1</sup>

This article is divided into three sections. Section 1 contains an overview of the FTSE StableRisk Index construction process and a summary of historical performance and possible applications for investors. Section 2 provides a detailed description of the index construction

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<sup>1</sup> Sixty-nine assets are included as of 2010.

and maintenance methodology. Section 3 concludes with a discussion of the theoretical and empirical underpinnings of the FTSE StableRisk Indices.

## SECTION 1

### *Overview of the FTSE StableRisk Indices*

**Investment Philosophy.** The risk/reward trade-off across financial assets is a well-established empirical fact in the finance literature: over the long term, riskier assets yield higher expected returns. Even with the 2008 market decline, the difference between the geometric average annual return of U.S. large-cap stocks and U.S. Treasury bills from January 1926 to December 2009 is 8.1% (see Table 1). While the articulation of this risk/reward relationship has been refined to specify the type of risk for which investors are compensated as systematic risk, the principle remains the same, i.e., investors require higher expected return to accept incremental undiversifiable risk.

This powerful idea has had far-reaching consequences both in academia and in practice. It provides the motivation for the doctrine of passive investing. If assets with non-diversifiable risk carry a positive risk premium, that premium may be captured in a low-cost, transparent, and scalable fashion by constructing a well-diversified portfolio of risky assets.

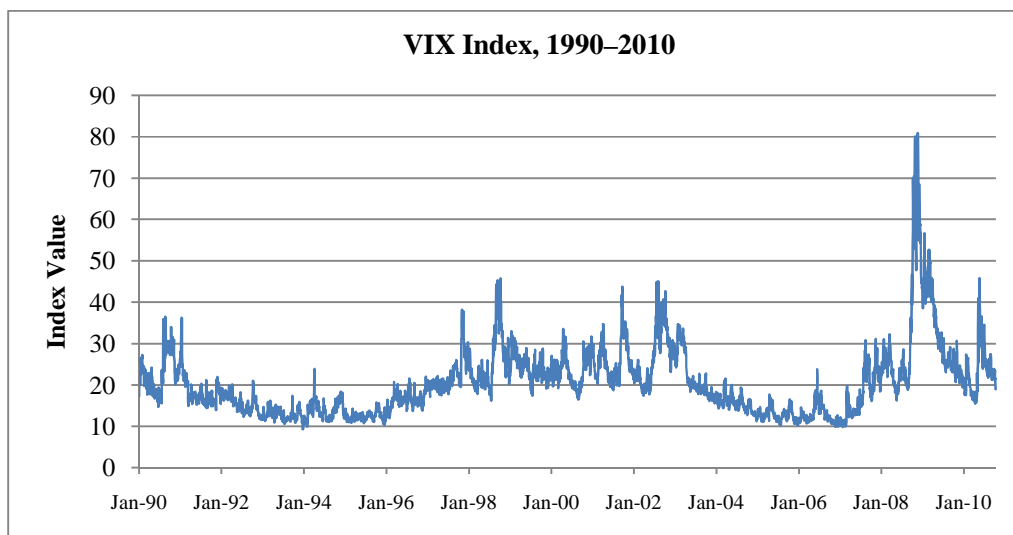
<b>Long-Term Risk Premia of Various Asset Classes</b>			
<b>Asset Class</b>	<b>Geometric Mean</b>	<b>Arithmetic Mean</b>	<b>Standard Deviation</b>
Large Company Stocks	9.8%	11.8%	20.5%
Small Company Stocks	11.9%	16.6%	32.8%
Long-Term Corporate Bonds	5.9%	6.2%	8.3%
Long-Term Government Bonds	5.4%	5.8%	9.6%
Intermediate-Term Government Bonds	5.3%	5.5%	5.7%
U.S. Treasury Bills	3.7%	3.7%	3.1%
Inflation	3.0%	3.1%	4.2%

**Table 1. Summary statistics of Ibbotson’s *Stocks, Bonds, Bills, and Inflation* series from January 1926 to December 2009. Source: Ibbotson (2010, Table 2–1).**

However, history has shown that this risk premium is not earned smoothly over time because of fluctuating levels of return and volatility. Investors who desire some stability in the risks they agree to take on do not expect the volatility of a “conservative” portfolio of 30%

stocks and 70% bonds to exhibit annualized volatility levels of 25%,<sup>2</sup> yet this is exactly what such a portfolio yielded in 2008 when the VIX reached 81% in November (see Figure 1). Of course, this would not necessarily be cause for concern if periods of elevated volatility provided investors with commensurately high average returns, since passive buy-and-hold portfolios would be compensated for volatility spikes. But there is mounting evidence that periods of higher volatility are not usually associated with periods of higher expected return (see the discussion in Section 3), in which case even passive long-term investments may be disadvantaged by periods of extreme volatility.

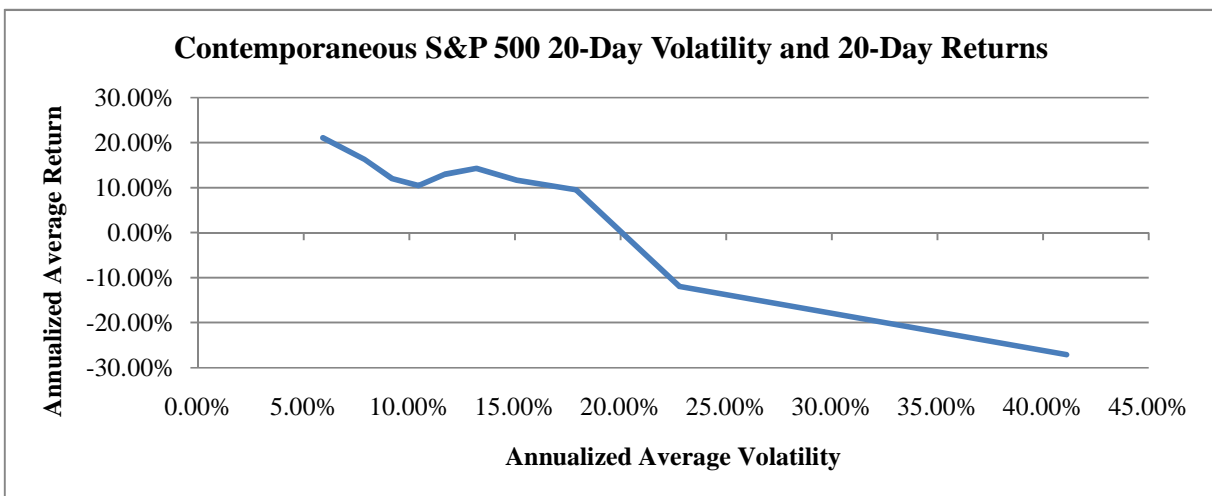
One mechanism that may contribute to a short-term reversal of the historical risk/reward relationship is a flight-to-safety reaction by investors in which leveraged bets are unwound and assets are moved *en masse* from risky to riskless securities in a relatively short period of time. During such episodes, the sustained process of exiting risky positions will, by definition, put downward pressure on the prices of those assets, causing them to earn lower or negative returns. The reverse will occur for safer assets in which investors are seeking refuge, and the combined effect is to temporarily reduce or, in extreme cases, flip the sign of historically positive risk premia.



**Figure 1: Monthly VIX volatility index from January 1990 to September 2010.** *Source: Bloomberg*

<sup>2</sup> Calculated using a 30-day rolling average volatility estimate of a 30% S&P 500 Index/70% BarCap Aggregate Bond Index Portfolio. Values shown occurred on November 20<sup>th</sup>, 2008.

This dynamic suggests that the standard risk/reward trade-off to which investors have become accustomed is not constant over time, but is punctuated by periods in which holding risky assets is not rewarded (see, for example, Miller, 2009). Figure 2 illustrates this pattern empirically, showing that the average annualized returns for periods of high volatility are not commensurately higher than those for periods of average volatility. In fact, they have been lower on average. To address this dynamic, the FTSE StableRisk Indices provide exposure to an asset class in a long-only framework, but seek to reduce investors' exposure to the variability in the asset class's short-term volatility. This is achieved by constructing an index that represents a portfolio of liquid futures contracts, rebalanced as often as daily with the objective of maintaining the portfolio's volatility at a given level, typically the long-term average risk of that asset class. The index therefore is expected to exhibit relatively stable risk at all times when compared to the asset class's risk levels including during periods of high market volatility. In essence, the FTSE StableRisk Indices aim to mitigate a source of risk for which investors may not be rewarded.



**Figure 2. 20-day average returns are sorted into deciles 1 (lowest) to 10 (highest), based on the contemporaneous 20-day rolling volatility estimate of the S&P 500 Index. Averages are calculated arithmetically, and annualized using a 252-day year.**

**Index Construction.** The FTSE StableRisk Indices cover four asset classes: equities, commodities, interest rates, and currencies. Within each asset class, futures contracts are used to represent a market or an asset, and a separate FTSE StableRisk Index is constructed for each

asset class. The FTSE StableRisk Composite Index, representing all assets and asset classes, is also computed. The specific futures contracts used to construct the indices are selected on the basis of their liquidity; only the most liquid contracts are employed so as to ensure that the indices are truly investable in large size (see Section 2). This liquidity threshold implies that the number of contracts represented in the indices may change over time. Sixty-nine assets are used to construct the indices as of 2010 (see Table B.1 in the Appendix for the specific contracts and their tickers):

- Equities: twenty-one global market index futures contracts.
- Commodities: twenty futures contracts consisting of two precious metal, four base metal, six energy, one livestock, and seven agricultural commodities futures contracts.
- Currencies: six currency futures contracts.
- Interest Rates: twenty-two futures contracts consisting of twelve global bond and ten global interest rate futures contracts.
- Composite Index: all sixty-nine assets included in the four asset classes above.

The basic objective of the StableRisk indices is to provide exposure to one or more asset classes (or assets) with short-term risk that is, at all times, at or near the long-term volatility level of those asset classes. This is expected to be achieved through the following process:

1. The eligible futures contracts are identified based on a minimum average daily dollar trading volume and regulatory restrictions.
2. The volatility target for each index is calculated annually using the trailing 10-year average volatility for a traditional long-only index representing that asset class. The FTSE StableRisk Indices' volatility is targeted at the long-term average volatility exhibited by the industry standard benchmarks listed in Table 2. The short-term volatility of each index is stabilized at the target level described above by modulating the market exposure of each index. For example, if short-term market volatility were to double, the market exposure of the StableRisk index would be halved.

## Long-Term Volatility Benchmarks of StableRisk Indices

FTSE StableRisk Index	Long-Term Volatility Benchmark	Average Volatility of Benchmark from January 2000 to December 2009
Equity Index	FTSE All World Equity Index	14.7%
Interest Rates Index	J.P. Morgan Hedged Global Government Bond Index	3.1%
Commodity Index	CRB – Reuters Jefferies Commodity Index	14.8%
Currency Index	U.S. Dollar Index	7.9%
Composite Index	Fixed 15% Annualized Volatility	15.0%

**Table 2. The traditional long-only indices on which the FTSE StableRisk Indices' long-term average volatility benchmarks are based, along with their historical volatilities from January 2000 to December 2009.**

3. The risk allocation among constituent assets is determined using a rules-based, systematic, top-down approach. Within each asset class, risk is allocated equally among countries (if relevant), and within each country, risk is allocated equally among all constituent contracts. For asset classes such as commodities, where countries are not relevant, risk is allocated equally among all constituent assets.
4. For the FTSE StableRisk Composite Index, the short-term volatility of each asset class is used to rescale the risk allocation among the asset classes (stocks, commodities, currencies, and interest rates) in a process identical to Step 3, and the asset classes are then combined, using these risk allocations, into the Composite index. This process ensures the Composite index is maintained at or near its targeted volatility level at all times and that its risk is allocated equally across all asset classes, countries, and constituent contracts.
5. Because these indices involve more frequent rebalancing than traditional long-only buy-and-hold indices, trading costs are deducted when computing index returns (see Tables B.3 and B.4 in the Appendix for the assumed trading costs applied to each contract used in the indices).

Section 2 provides a more detailed explanation of the mechanics of index construction and maintenance. Full technical specifications of the indices are available on the FTSE website as part of its index rules documentation.

**Historical Performance.** Tables 3–7 and Figures 3–7 summarize the historical performance of the StableRisk Indices for the period from January 1992 to August 2010. The average returns, volatilities, maximum drawdowns, and Sharpe ratios of the FTSE StableRisk Indices are considered, along with a relevant traditional long-only benchmark for each asset class. The historical correlation of the StableRisk Indices with the traditional long-only benchmarks is shown at the end of the section in Table 8.

Over the sample period, the historical performance of the FTSE StableRisk Indices compares favorably in terms of absolute and risk-adjusted returns for most asset classes, and in most cases has also experienced less extreme maximum drawdowns.

<b>StableRisk Equity Index Comparison</b>		
<b>1/1992–8/2010</b>	<b>StableRisk Equity Index</b>	<b>FTSE All World Equity Index*</b>
Mean Return	7.8%	6.5%
Standard Deviation	16.3%	15.4%
Sharpe Ratio <sup>§</sup>	0.26	0.19
Max. Drawdown	-49.0%	-54.5%

\*The FTSE All World Equity Index is proxied prior to 1994 by the MSCI World Index.

§Sharpe Ratio is calculated using the 3-month T-bill yield as the riskless rate of return.

**Table 3: Comparison of the StableRisk Equity Index and the FTSE All World Equity Index performance over the period from 1992 through August 2010.**

The FTSE StableRisk Equity Index over the sample period enjoyed a higher average return than the FTSE All World Equity Index on both an absolute and risk-adjusted basis. Its mean annual return of 7.8% is 130 basis points greater than the FTSE All World Index's 6.5%, with volatility that is only 0.8% higher (within expectations given the inevitable differences between *ex ante* volatility estimates and realized volatilities). In addition, its maximum drawdown during the sample period was 5.5% better. Not surprisingly, the FTSE StableRisk Equity Index exhibits similar relative performance versus other broad equity indices such as the MSCI World Index and the Russell 3000 index, as shown in Table 8, since the correlations of these benchmarks with the FTSE All World Index are 99.8% and 84.8%, respectively.

<b>StableRisk Commodity Index Comparison</b>		
<b>1/1992–8/2010</b>	<b>StableRisk Commodity Index</b>	<b>Reuters Jefferies CRB Index</b>
Mean Return	8.9%	8.0%
Standard Deviation	13.0%	15.5%
Sharpe Ratio <sup>§</sup>	0.41	0.29
Max. Drawdown	-29.6%	-54.0%

§Sharpe Ratio is calculated using the 3-month T-bill yield as the riskless rate of return.

**Table 4: Comparison of the StableRisk Commodity Index and the Reuters Jefferies CRB Index performance over the period from 1992 through August 2010.**

The FTSE StableRisk Commodity Index also generated higher absolute and risk-adjusted returns than those of the CRB Index over the sample period, outperforming the CRB Index's 8.0% annual return by 0.9%, while having a standard deviation 2.5% less than the CRB's. It achieved this with a maximum drawdown that was 24.3% better than that of the volatile CRB

Index. With a correlation to the GSCI of 83.1%, and a correlation to the Dow Jones/UBS Commodity Index of 87.6%, the StableRisk Commodity Index tracks a commodity portfolio that fits the same factor niche as these traditional commodity indices, but with substantially less downside risk, on a historical basis.

<b>StableRisk Currency Index Comparison</b>		
<b>1/1992–8/2010</b>	<b>StableRisk Currency Index</b>	<b>U.S. Dollar Index</b>
Mean Return	3.8%	0.0%
Standard Deviation	9.2%	8.3%
Sharpe Ratio <sup>§</sup>	0.03	-0.43
Max. Drawdown	-32.5%	-40.3%

§Sharpe Ratio is calculated using the 3-month T-bill yield as the riskless rate of return.

**Table 5: Comparison of the StableRisk Currency Index and the U.S. Dollar Index performance over the period from 1992 through August 2010.**

The FTSE StableRisk Currency Index exhibited absolute and risk-adjusted returns that were materially better than the U.S. Dollar Index during the sample period, returning a positive 3.8% annualized return, as compared to the U.S. Dollar Index which was flat. While the StableRisk Currency Index does have a slightly higher standard deviation than the U.S. Dollar Index, its maximum drawdown was 7.8% better. The correlation between the FTSE StableRisk Currency Index and the U.S. Dollar Index is -91.5% over the historical period. The negative correlation between the two indices results from one being long and the other being short a basket of non-U.S. currencies (the decision to be long a basket of non-U.S. currencies is based on the fact that historically it is this investment that has earned a risk premium). The absolute magnitude of the correlation reflects the fact that the same factors are driving both indices.

<b>StableRisk Interest Rates Index Comparison</b>		
<b>1/1992–8/2010</b>	<b>StableRisk Interest Rates Index</b>	<b>J.P. Morgan Hedged Government Bond Index*</b>
Mean Return	6.7%	6.8%
Standard Deviation	5.6%	3.3%
Sharpe Ratio <sup>§</sup>	0.57	1.02
Max. Drawdown	-10.2%	-5.3%

\*The J.P. Morgan Bond Index is proxied prior to 1993 by the Barclays Capital Aggregate Bond Index.

§Sharpe Ratio is calculated using the 3-month T-bill yield as the riskless rate of return.

**Table 6: Comparison of the StableRisk Interest Rates Index and the J.P. Morgan Hedged Government Bond Index performance over the period from 1992 through August 2010.**

The FTSE StableRisk Interest Rates Index is the only StableRisk Index which does not outperform its corresponding traditional long-only benchmark over the sample period. While the

absolute returns are roughly comparable at 6.7% versus 6.8% for the J.P. Morgan Hedged Government Bond Index, the risk-adjusted returns underperform, with a Sharpe ratio of 0.57 that is roughly half that of the 1.02 Sharpe ratio of the J.P. Morgan Bond Index. We conjecture that the reason for this outlier is the lack of comparability with traditional government bond indices, which benefit from the proportionately larger coupon income from longer-dated bonds; in contrast, the StableRisk Interest Rates Index only tracks the principal value of the bonds, and only models income from short-term 1-month LIBOR. In addition, a large proportion of this index's underperformance may also be due to the inclusion of transaction costs in the index.

<b>StableRisk Composite Index Performance</b>	
<b>1/1992–8/2010</b>	<b>StableRisk Composite Index</b>
Mean Return	17.1%
Standard Deviation	17.2%
Sharpe Ratio <sup>§</sup>	0.79
Max. Drawdown	-24.3%

§Sharpe Ratio is calculated using the 3-month T-bill yield as the riskless rate of return.

**Table 7: Performance statistics for the StableRisk Composite Index for the period from 1992 through August 2010.**

The FTSE StableRisk Composite Index is the risk-equalized combination of the StableRisk Asset Class Indices described above. The overall index volatility is targeted to 15% annually, but realized volatility was slightly higher during the historical period at 17.2%. Its diversification across asset classes yields both a manageable maximum drawdown of less than 25% and attractive absolute and risk-adjusted average annual returns, providing a mean return of 17.1% with a Sharpe Ratio of 0.79. These performance statistics suggest that risk-stabilized and diversified asset allocation, in the absence of a point of view on asset class performance, does provide meaningful benefits to investors. Moreover, the maximum drawdown of -24.3% compares favorably with that of equity-based portfolios.

The StableRisk Indices have high correlations with the traditional long-only asset benchmarks (with the exception of the StableRisk Currency Index, which is by construction similar to an inverse U.S. Dollar Index). This is not surprising since both reflect the underlying driving factors of their respective asset classes. Inasmuch as the StableRisk Indices differ from the traditional, long-only benchmarks, this is likely attributable to the risk control and diversification methodology used within the StableRisk Indices.

### Historical Correlations of StableRisk Indices and Traditional Benchmarks\*

January 1995–August 2010	StableRisk Currency Index	StableRisk Equity Index	StableRisk Interest Rates Index	StableRisk Commodity Index	StableRisk Composite Index
U.S. Dollar Index	-91.5%	7.3%	-9.5%	-37.8%	-61.7%
StableRisk Currency Index	-	-17.9%	11.0%	34.3%	59.5%
FTSE All World Total Return Index	17.7%	80.7%	-18.7%	27.2%	44.9%
MSCI World Total Return Index	17.3%	80.8%	-18.3%	25.5%	44.1%
Russell 3000 Total Return Index	2.5%	78.8%	-15.2%	17.2%	33.7%
StableRisk Equity Index	-17.9%	-	-15.2%	15.4%	33.4%
BarCap Aggregate Bond Index	22.2%	-6.5%	66.2%	7.0%	44.6%
J.P.M. Hedged Government Bond Index	9.7%	-12.6%	80.0%	-4.2%	38.6%
StableRisk Interest Rates Index	11.0%	-15.2%	-	-7.3%	44.1%
CRB Total Return Index	27.1%	24.9%	-9.8%	86.1%	57.6%
DJ UBS Commodity Total Return Index	29.9%	25.4%	-8.8%	87.6%	61.2%
GSCI Total Return Index	25.0%	20.3%	-8.6%	83.1%	53.3%
StableRisk Commodity Index	34.3%	15.4%	-7.3%	-	65.9%
StableRisk Composite Index	59.5%	33.4%	44.1%	65.9%	-

\*Correlations are calculated starting in 1995 because data for several traditional benchmarks prior to 1995 was not available at time of publication.

**Table 8: Selected historical correlations of the FTSE StableRisk Indices with traditional benchmarks during the period 1995 through August 2010.**

In summary,

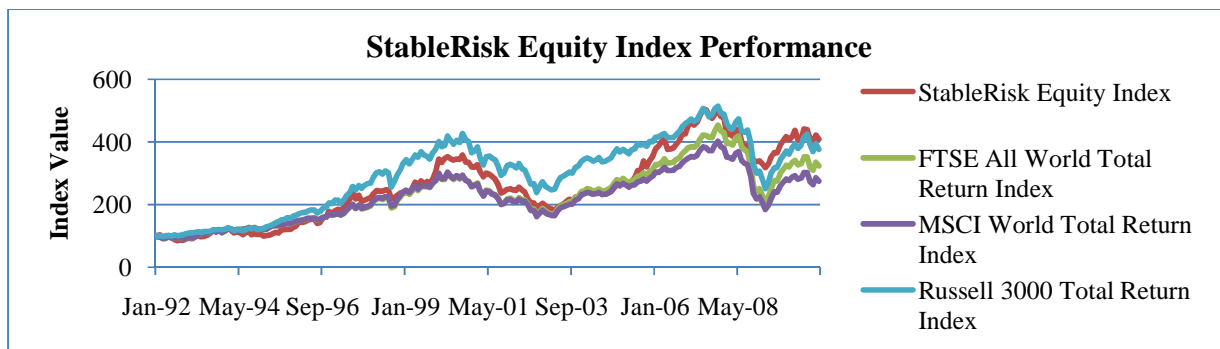
- Except in the case of interest rates, the long-only FTSE StableRisk Indices outperformed the corresponding traditional, long-only asset class benchmark in both absolute and risk-adjusted terms during the period from January 1992 through August 2010.
- Except in the case of interest rates, each of the FTSE StableRisk Indices had a lower maximum drawdown than its corresponding traditional, long-only asset class benchmark during the period from January 1992 through August 2010.
- The FTSE StableRisk Composite Index had a Sharpe ratio of 0.79 during the period from January 1992 through August 2010, which we believe reflects the benefit of diversification across asset classes.

**Index Applications.** The FTSE StableRisk Indices have the following characteristics:

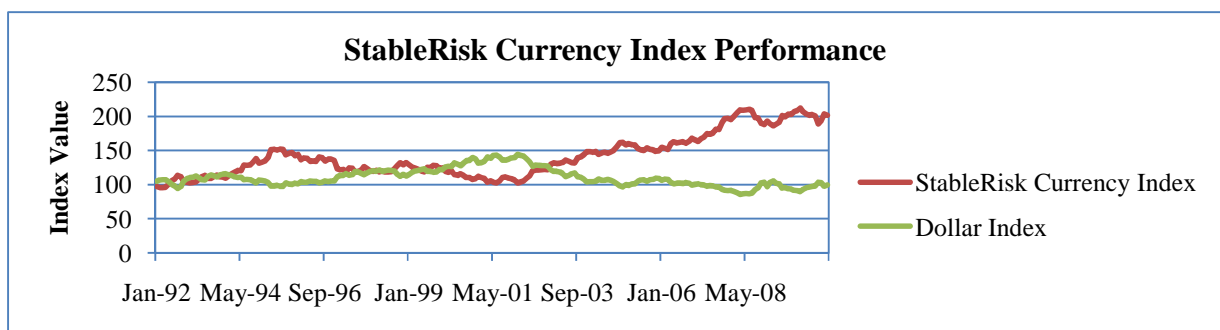
- Passive (rules-based) and transparent;
- Investable and replicable;
- Broadly-diversified within and across asset classes;
- Long-only indices based on a simple, well-documented investment process.

These characteristics make them well-suited for the following three applications:

1. **Investment Vehicles.** The FTSE StableRisk Indices are investable and replicable and can easily serve as the basis for creating high-capacity, low-cost, long-only investment vehicles to gain exposure to asset classes at stable risk levels.
2. **Portfolio Structuring.** More risk-efficient portfolio structures may be created by allocating some portion of the strategic or policy asset class allocations to vehicles linked to these indices. This would allow investors to reduce the overall portfolio's sensitivity to changes in short-term market volatility.
3. **Benchmarking.** The FTSE StableRisk Indices—and customized variations with different target volatilities and/or constituent weights—can be used as performance benchmarks for long-only strategies that invest within and across asset classes, globally. Such benchmarks have the advantage of requiring managers to consider absolute as well as relative risk management.



**Figure 3. Cumulative returns of the StableRisk Equity Index compared to traditional equity asset class benchmarks, over the period from 1992 to August 2010. The FTSE All World Total Return Index is proxied prior to 1994 by the MSCI World Total Return Index.**



**Figure 4. Cumulative returns of the StableRisk Currency Index compared to the U.S. Dollar Index over the period from 1992 to August 2010.**

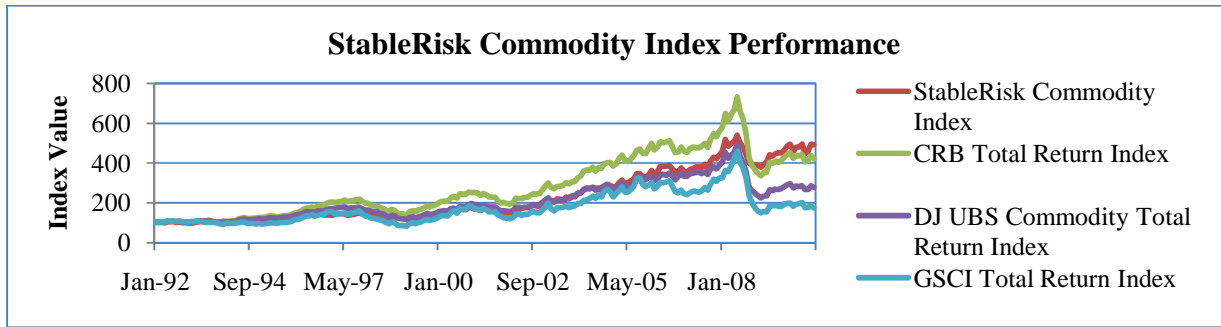


Figure 5. Cumulative returns of the StableRisk Commodity Index compared to traditional commodity asset class benchmarks, over the period from 1992 to August 2010.

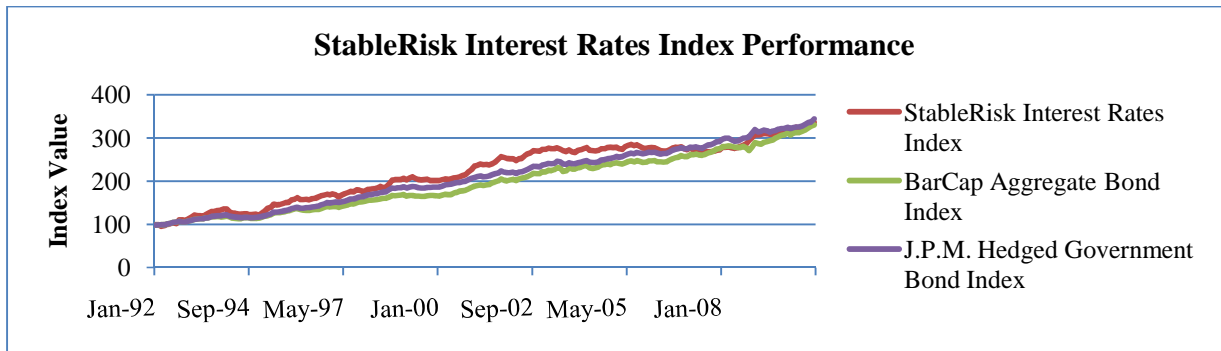


Figure 6. Cumulative returns of the StableRisk Interest Rates Index compared to traditional bond and interest rate asset class benchmarks, over the period from 1992 to August 2010. The J.P. Morgan Bond Index is proxied prior to 1993 by the Barclays Capital Aggregate Bond Index.

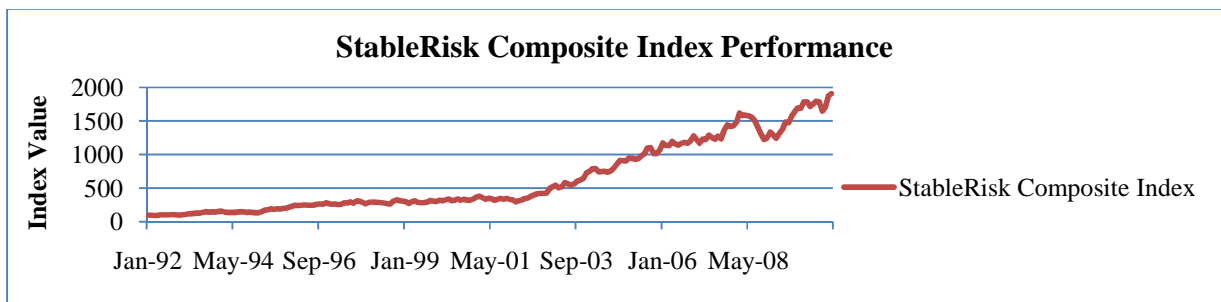
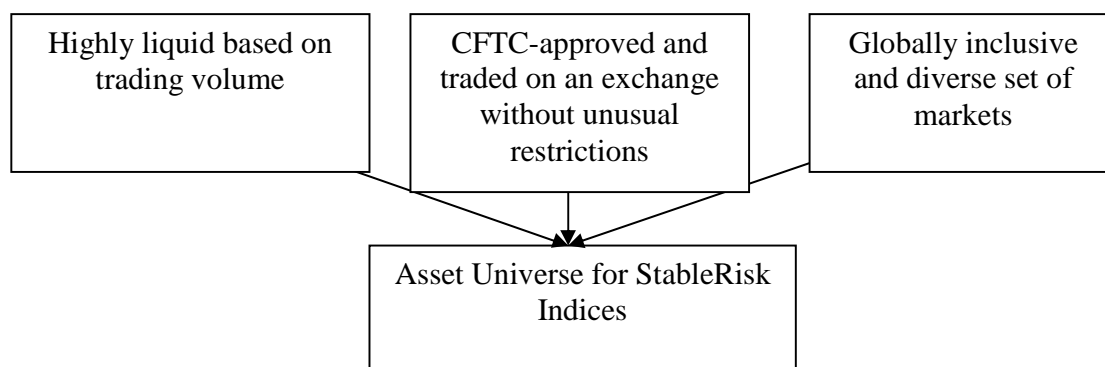


Figure 7. Cumulative returns of the StableRisk Composite Index over the period from 1992 to August 2010.

## SECTION 2

### *Index Construction and Maintenance Methodology*

In this section, the detailed, but non-technical index construction methodology is described.



**Figure 8: FTSE StableRisk Indices component asset selection criteria.**

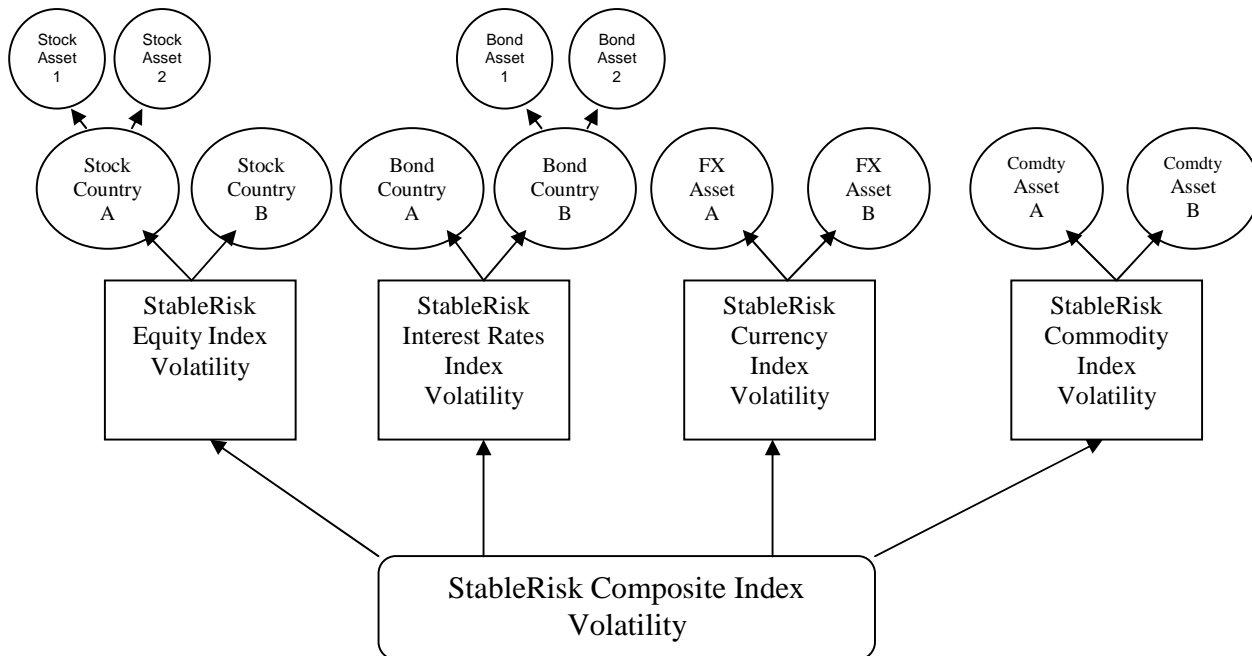
**Contract Selection.** The futures contracts used in these indices are chosen using several criteria based on the practical implications of their trading. For a futures contract to be included, it must be approved by the CFTC and traded on an exchange that does not impose inordinately complex or stringent requirements. The latter criterion can be somewhat subjective and will be applied going forward by the Index Committee. It is included to preserve the investability of the indices. An example of a futures contract that, at the time of this publication, is excluded based on this qualitative restriction, is the Korean three-year bond future, which, although it meets the volume requirement, is traded on an exchange that requires pre-funding and does not permit give-ups.<sup>3</sup>

In addition to the regulatory and trading requirements for inclusion, each futures contract must have average aggregate daily trading volume in its component contracts (that is, volume across all currently traded contracts within a contract series) of at least one billion USD. Average daily trading volume for this purpose is calculated annually on December 31st, or another date as determined by the Index Committee. Contracts currently passing all the above filters and qualifying for inclusion in the Indices are listed in the Appendix. Once included, a contract is not removed from the index until its average daily trading volume drops below five

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<sup>3</sup> “Give-ups” are futures trades executed with different brokers that are later consolidated with one brokerage house for clearing.

hundred million USD. This is more conservative than those inclusion criteria used by many traditional indices, and are made without reference to possible index performance implications.



**Figure 9: StableRisk Composite Index’s risk allocation methodology.**

**Risk Allocation.** The following process is used to determine the allocation of each index’s risk budget among its constituent assets. The goal is to have each asset-class index target its short-term volatility to the trailing 10-year volatility of its benchmark, and to equally distribute the risk of each of these indices among its constituent assets, taking into account geographic overlap among certain assets. In particular, risk is allocated within the StableRisk Indices in the following manner:

1. **Equalize Individual Asset Risk.** Normalize the weights of all of the constituent assets of each index, such that portfolios composed of each single asset, at the normalized weight, with the remainder of each portfolio in cash, would have the same estimated short-term volatility.
2. **Equalize Asset Group Risk.** Within the Interest Rates and Equity asset classes, there exist multiple contracts that track assets which correspond to the markets of (or bonds originated from) a common country. In such cases, rescale the normalized weights of the components of each of these country asset groups such that each country’s assets are given approximately the same risk exposure. For example, the five U.S. equity contracts in the global equity index have their weights rescaled such that each has its normalized weight multiplied by 0.2. These rescaling weights are shown in Table B.2.

3. **Target Asset Class Portfolio Volatility.** Estimate the short-term volatilities of the asset class indices, taking covariances into account, and scale all the assets' weights proportionally such that each asset class portfolio's estimated short-term volatility matches its volatility target. Because long- and short-term (3 months or less) interest rate contracts behave very differently, for the StableRisk Interest Rates Index, this step and step 2 are applied to the short-term interest rate contracts and the longer-duration bond contracts separately, and then combined with a 50%/50% risk allocation.
4. **Combine Asset Class Portfolios in the Composite Index.** For the StableRisk Composite Index, apply Steps 2 and 3 again, treating each asset class as an "asset group," and combining all of the asset-class portfolios together such that each asset class is allotted an equal risk allocation, and the overall composite portfolio's short-term volatility targets its volatility benchmark which is a fixed 15 percent annually.

**Index Calculation.** To ensure each index is truly "investable," the following additional steps are taken:

1. **Portfolio Rebalancing Rules.** Short-term volatility targeting can lead to significant turnover. Rebalancing thresholds are therefore used to limit position changes to those that are at least 25% larger or smaller than the previous position. The result is slightly more variability in volatility relative to the volatility target, but substantially reduced turnover and transaction costs.
2. **Simulated Trading with Transaction Costs.** Although the restriction to highly liquid contracts and the use of rebalancing thresholds helps to reduce transaction costs, the relatively high turnover associated with the StableRisk Index demands accounting for those costs if index results are to be truly achievable. Transaction costs reflecting trading commissions and market impact are therefore deducted. The assumed costs are shown in Tables B.3 and B.4 of the Appendix. Trades and costs are simulated assuming that the index portfolios have a value of 100 million USD at all times and that only whole contracts may be traded.
3. **Cash Returns.** Futures contracts are agreements for future delivery of an asset, and only require that a fraction of the notional market exposure of each futures contract be held as margin. Capital not required for margin is assumed to be held as cash earning interest based on current money market rates. Cash returns are simulated as the 1-month LIBOR rate on 80% of the assumed portfolio value, and added to the index value.

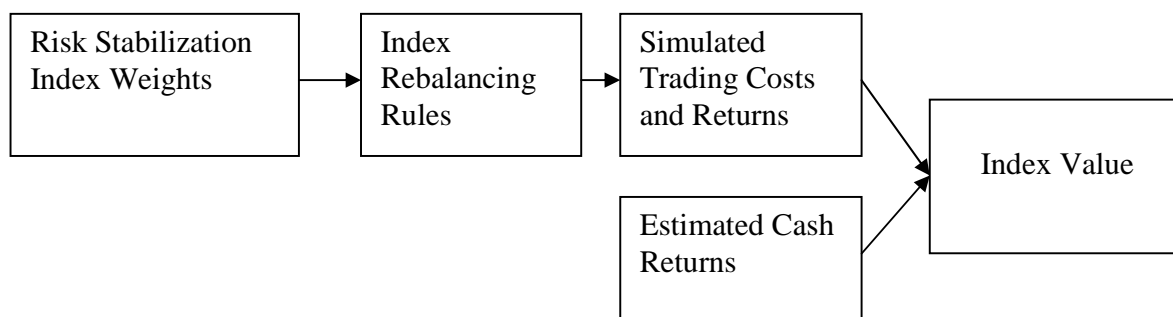


Figure 10: Illustration of the process of calculating the FTSE StableRisk Indices.

## SECTION 3

### *Theoretical and Empirical Underpinnings*

**Black’s Leverage Effect.** The fact that the expected returns of financial assets can vary through time is now well established.<sup>4</sup> However, the particular economic mechanisms driving these changes are considerably more complex and controversial, ranging from stochastic dynamic general equilibrium models of asset prices with state-dependent preferences and non-insurable risks to learning behavior under asymmetric information to behavioral models of investor psychology. But with respect to the impact of short-run volatility changes on expected returns, an empirical relation was first documented over three decades ago by Fischer Black (1976), who found an inverse relation between 21-day summed returns and changes in volatility (as measured by the root mean square of returns) over the same period for the daily returns of 30 stocks (mostly Dow Jones Industrials) from 1964 to 1975. Black (1976) proposed two possible explanations for this relationship: (1) a “leverage effect,” in which negative returns lead to higher leverage for equity holders, *ceteris paribus*, yielding higher volatility for equity returns; and (2) changes in tastes and technology lead to increased uncertainty regarding the future prospects of a company, in which case the company’s current share price must decline so as to offer investors a higher expected return as compensation for the increased risk. Black’s (1976) empirical findings have since been confirmed and updated by several authors including Christie (1982), Cheung and Ng (1992), and Duffee (1995).

<sup>4</sup> See, for example, Ang and Bekaert (2002), Campbell and Shiller (1988), Chordia and Shivakumar (2002), Fama and French (1988, 1989), and Ferson and Harvey (1991).

**Time-Varying Expected Returns.** Other authors have argued that this relation is attributable to time-varying expected returns (Pindyck, 1984; French, Schwert, and Stambaugh, 1987; Campbell and Hentschel, 1992; and Bekaert and Wu, 2000) or the asymmetric volatility of macroeconomic shocks (Schwert, 1989). Using the S&P 100 index as well as data for the individual stocks in the index, Figlewski and Wang (2000) also document a strong inverse volatility/lagged-return relation associated with negative returns, but observe a number of anomalies that cast some doubt on the leverage-based explanation. Specifically, the inverse relation becomes much weaker when positive returns reduce leverage; it is too small with measured leverage for individual firms and too large when implied volatilities are used, and the volatility change associated with a given change in leverage seems to decay over several months. Most importantly, there is no change in volatility when leverage changes due to a change in outstanding debt or shares, and volatility changes are observed only with stock-price changes, leading Figlewski and Wang (2000) to propose a new label for the observed inverse volatility/lagged-return relation: the “down-market effect.” More recently, Hasanhodzic and Lo (2010) test the leverage effect directly by studying a sample of all-equity-financed companies from January 1972 to December 2008, and they find that the leverage effect is just as strong if not stronger, implying that the inverse relationship between price and volatility is not based on leverage, but is more likely driven by time-varying risk premia or cognitive mechanisms of risk perception.

**Adaptive Markets Hypothesis.** Collectively, these studies provide strong evidence that volatility changes do have an unmistakable effect on expected returns, and are consistent with the Adaptive Markets Hypothesis proposed by Lo (2004, 2005, 2010) and Brennan and Lo (2009), in which market prices fluctuate between efficient and inefficient states due to economy-wide behavioral reactions to systematic shocks. Moreover, the authors' analysis of other asset classes shows that this phenomenon is not limited to U.S. equities, but applies more generally to bonds, foreign currencies, and commodities in many countries. Therefore, the proposed FTSE StableRisk Indices are constructed with the broadest possible collection of liquid futures contracts with the goal of maximizing the benefits of diversification while capturing the risk premia of all asset classes in a stable risk platform.

**Backtest, Survivorship, and Data-Snooping Biases.** While the historical performance figures of the FTSE StableRisk Indices are compelling, they should be treated with a certain degree of skepticism because of the impact of backtest, survivorship, and data-snooping biases that affect every empirical analysis of investment performance that employs historical data. Since certain investment products may exhibit attractive historical returns simply due to chance, it is important to understand the rationale for superior performance and not rely solely on historical returns.

At the same time, historical results cannot be ignored because they do contain useful information about an investment product's realized returns during specific periods in the market's past. For example, in comparing two investment strategies, most investors today would insist on understanding the relative performance of the two strategies during the fourth quarter of 2008, one of the most challenging periods for financial markets since 1929. Such results are, of course, still subject to backtest bias like any other empirical study of past performance—for example, the better-performing strategy may simply have been short S&P 500 futures, not because of an active bet, but due to a policy of maintaining a consistently low market beta. Nevertheless, the historical differences in realized returns may also signal significant differences in the strategies' portfolio construction processes, risk management protocols, and liquidity characteristics.

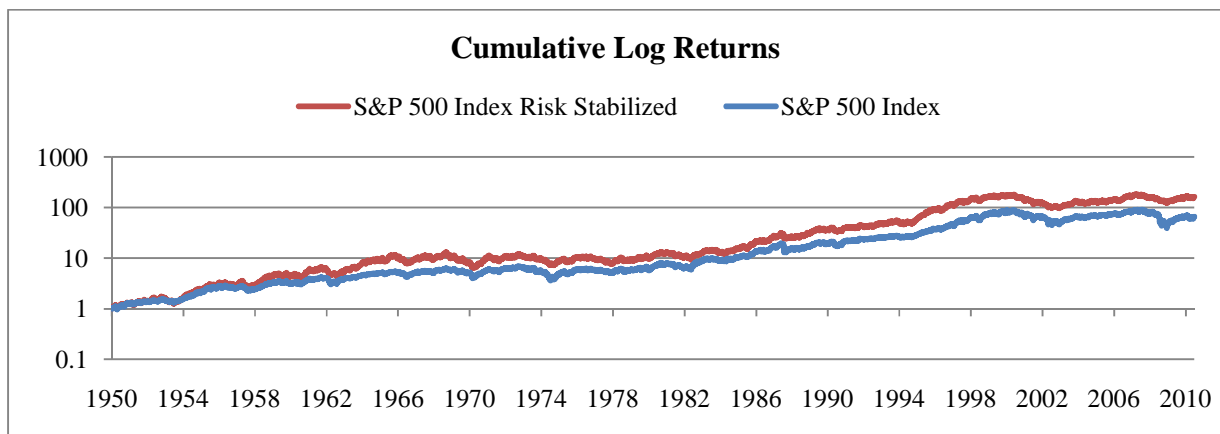
In other words, historical performance is a double-edged sword that can overstate the benefits of an investment strategy, but can also provide valuable information about risk and reward. The challenge is, of course, separating signal from noise, which can only be done through a combination of quantitative and qualitative processes that include judgment, intuition, experience, and a fully articulated investment philosophy. See Leamer (1978), Lo and MacKinlay (1990), and Lo (1994, 2010) for more detailed discussions of backtest bias.

## APPENDIX A

### StableRisk Portfolios

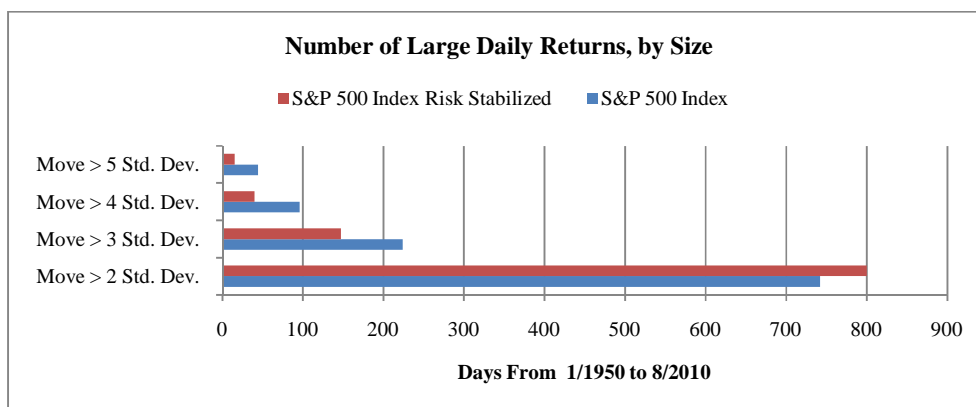
The purpose of the StableRisk Indices is to demonstrate the advantages of managing individual assets, and portfolios, to targeted volatilities. Risk stabilization attempts to target the short-term risk of any particular individual asset to a long-term volatility target. In other words, risk stabilization attempts to mitigate variations in asset-class risk across time, thereby improving portfolio diversification across time as well as across assets.<sup>5</sup>

At the same time, risk stabilization appears to have a salutary effect on individual asset returns. As shown in Figure A.1, the cumulative returns of the risk stabilized S&P 500 Index are greater over the same period while having the identical (by construction) overall standard deviation.



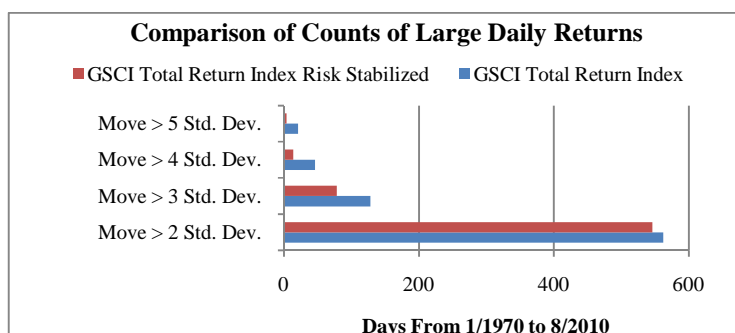
**Figure A.1: Hypothetical comparison of the cumulative returns of the S&P 500 Index and a risk stabilized S&P 500 Index, over the period from March 1950 to August 2010.**

<sup>5</sup> Note that this is not the same as the so-called “risk-parity” methods, which attempt to equilibrate the risk contribution of each asset (including the estimated effects of covariances) across the portfolio at any given point in time, but do not attempt to control absolute risk levels.

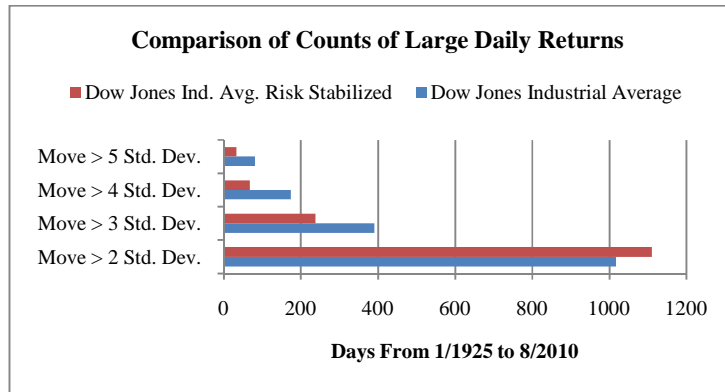


**Figure A.2: Counts of daily returns of the S&P 500 Index and the risk stabilized S&P 500 Index that are greater than 2 standard deviations of the series in magnitude, during the period from January 1950 through August 2010.**

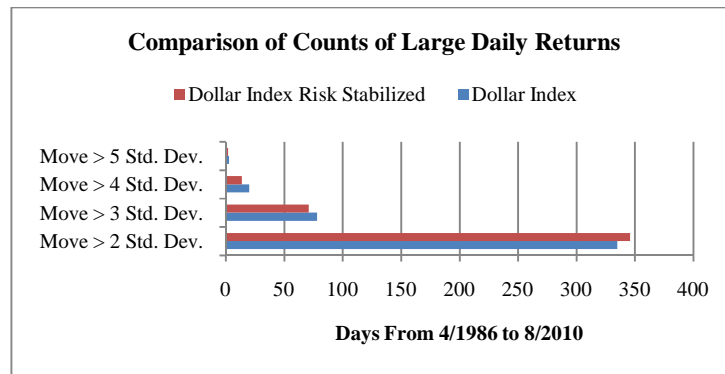
Beyond the simple and apparent advantages of this type of volatility management on the S&P 500, we see a wide series of improvements in risk control and tail risk management using risk stabilization. The number of large tail events is reduced across asset class benchmark indices as shown in Figures A.2-A.6 in all cases except the Barclays Capital Aggregate Bond Index. Other measures of tail risk, such as maximum drawdown and kurtosis, approach values closer to those expected under the normal distribution as shown in Figures A.7-A.9. Note that the historical periods used are different for each asset class due to data availability constraints.



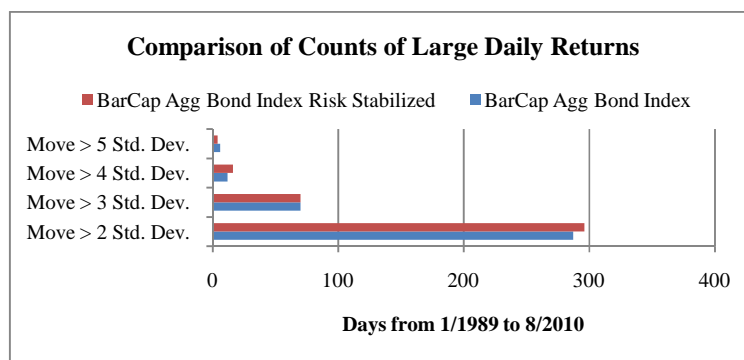
**Figure A.3: Counts of daily returns of the GSCI Total Return Index and the risk stabilized GSCI Total Return Index that are greater than 2 standard deviations of the series in magnitude, during the period from January 1970 through August 2010.**



**Figure A.4: Counts of daily returns of the Dow Jones Industrial Average Index and the risk stabilized Dow Jones Industrial Average Index that are greater than 2 standard deviations of the series in magnitude, during the period from January 1925 through August 2010.**

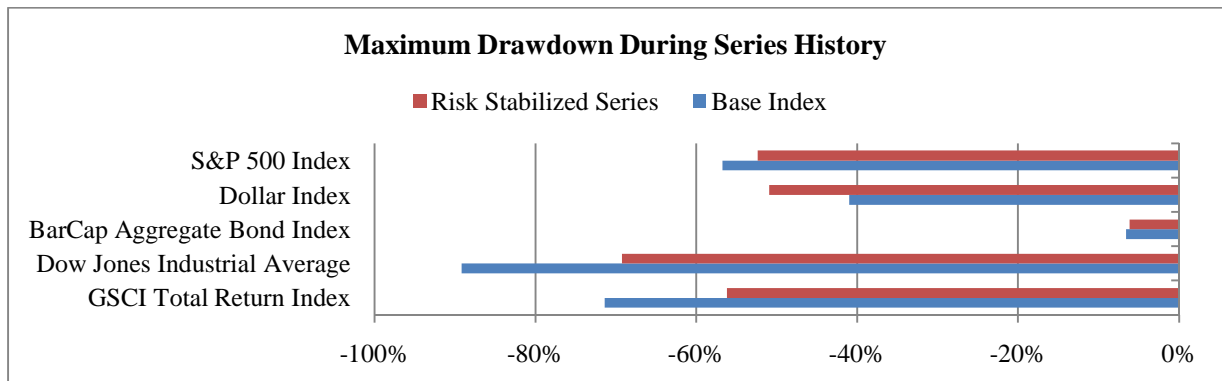


**Figure A.5: Counts of daily returns of the U.S. Dollar Index and the risk stabilized U.S. Dollar Index that are greater than 2 standard deviations of the series in magnitude, during the period from April 1986 through August 2010.**

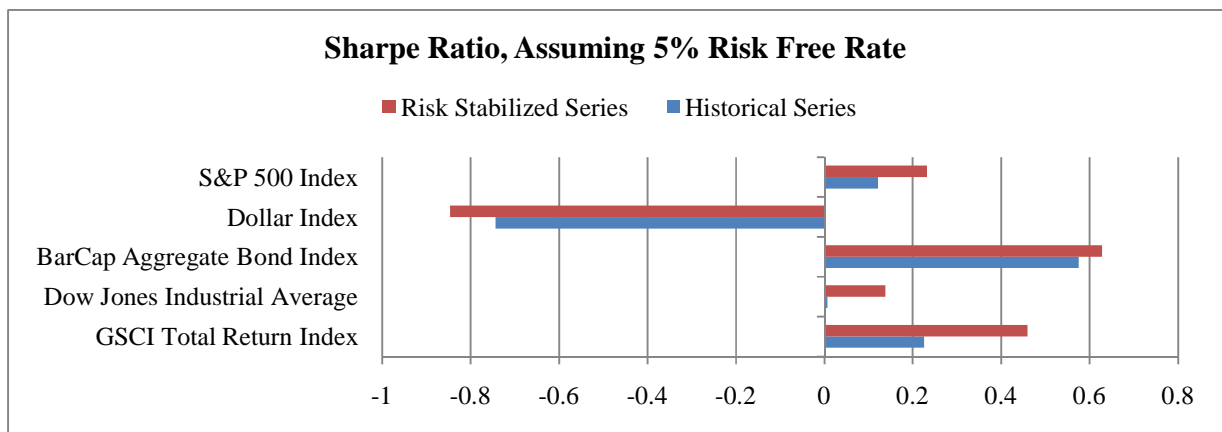


**Figure A.6: Counts of daily returns of the Barclays Capital Aggregate Bond Index and the risk stabilized Barclays Capital Aggregate Bond Index that are greater than 2 standard deviations of the series in magnitude, during the period from January 1989 through August 2010.**

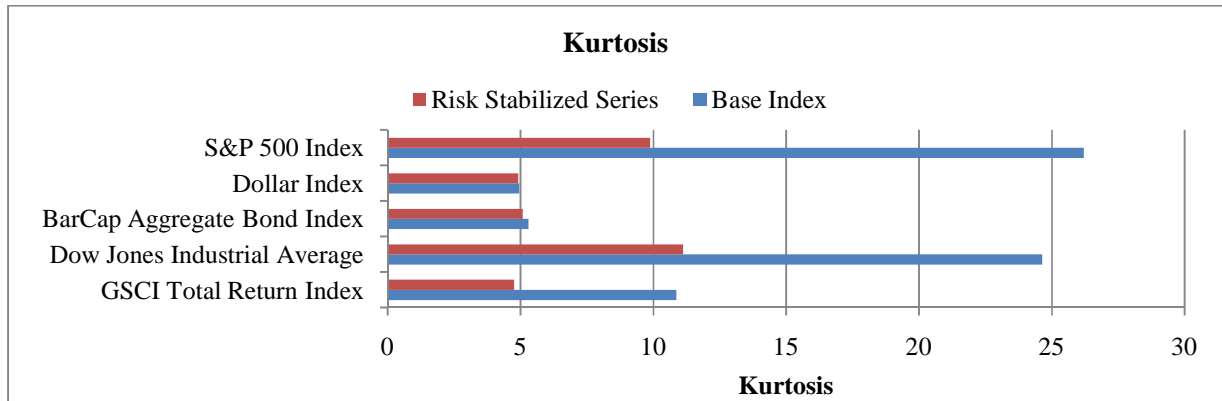
Risk control also improves, in both absolute and variance-relative terms, the maximum drawdown for all indices except the U.S. Dollar Index. The deviation of the U.S. Dollar Index from this pattern is primarily due to the fact that by holding a long position in the U.S. Dollar, and therefore a short position in a basket of world currencies, it captures the “inverse” of a currency risk premium. Thus if we invert the U.S. Dollar Index, its risk-stabilized performance becomes aligned with that of other asset class benchmarks that offer a positive risk premium, and is consistent with the performance of the StableRisk Currency Index.



**Figure A.7: Maximum drawdown statistics from several traditional asset class benchmarks and their respective risk stabilized versions, computed over the same time periods as the original benchmarks described above in Figures A.2 to A.6.**



**Figure A.8: Sharpe ratio statistics from several traditional asset class benchmarks and their respective risk stabilized versions, computed over the same time periods as the original benchmarks described above in Figures A.2 to A.6, using a fixed 5% rate as the riskless interest rate.**



**Figure A.9: Kurtosis statistics from several traditional asset class benchmarks and their respective risk stabilized versions, computed over the same time periods as the original benchmarks described above in Figures A.2 to A.6.**

Overall, the risk stabilization methodology is believed by the authors to materially improve the stability and consistency of the return distribution of assets, capturing the long-term risk premium inherent in each asset class while reducing the heteroskedasticity of the return series over time. Although any improvement associated with applying the methodology to bonds is negligible, the substantial improvements in the equity and commodity index performance (as well as the performance of the inverse U.S. Dollar Index) demonstrate that on an empirical basis, risk stabilization provides significant advantages to portfolios over simple buy-and-hold strategies. While these advantages may not have been available net of transaction costs in the distant past, recent innovations and improvements in the futures markets have dramatically reduced transaction costs, opening up the possibility for investments with more stable risk and the associated potential advantages of smaller maximum drawdowns, less tail risk, and higher risk-adjusted returns.

## APPENDIX B

### Contracts Included in the StableRisk Indices, by Index as of 2010

Futures Contract Name	Bloomberg Ticker	Currency	Exchange	Contract Months	Country	Index*
10-Year Commonwealth Treasury Bond Futures	XMA Comdty	AUD	SFE	HMUZ	AUS	Interest Rates Index
2-Year U.S. Treasury Note Futures	TUA Comdty	USD	CBT	HMUZ	USA	Interest Rates Index
3-Month (Short) Sterling Interest Rate Futures	L A Comdty	GBP	LIF-NYSE	HMUZ	UK	Interest Rates Index
3-Month Euro Euribor Interest Rate Futures	ERA Comdty	EUR	LIF-NYSE	HMUZ	EU	Interest Rates Index
3-Month Euro Swiss Franc Interest Rate Futures	ESA Comdty	CHF	LIF-NYSE	HMUZ	SWI	Interest Rates Index
3-Month Euroyen Futures	YEA Comdty	JPY	TFX	HMUZ	JAP	Interest Rates Index
3-Year Commonwealth Treasury Bond Futures	YMA Comdty	AUD	SFE	HMUZ	AUS	Interest Rates Index
30-Day Federal Fund Rate Futures	FFA Comdty	USD	CBT	FGHJKMNQUVXZ	USA	Interest Rates Index
30-Day ASX Interbank Cash Rate Futures	IBA Comdty	AUD	SFE	FGHJKMNQUVXZ	AUS	Interest Rates Index
90-Day EuroDollar Time Deposit Futures	EDA Comdty	USD	CME	HMUZ	USA	Interest Rates Index
ASX 90-Day Bank Accepted Bills Futures	IRA Comdty	AUD	SFE	HMUZ	AUS	Interest Rates Index
5-Year U.S. Treasury Note Futures	FVA Comdty	USD	CBT	HMUZ	USA	Interest Rates Index
Canadian 10 Year Bond Futures	CAN Comdty	CAD	MSE	HMUZ	CAN	Interest Rates Index
Canadian 3-Month Bankers Acceptance Futures	BAA Comdty	CAD	MSE	HMUZ	CAN	Interest Rates Index
Euro-Bobl Bond Futures	OEA Comdty	EUR	EUX	HMUZ	EU	Interest Rates Index
Euro-Bund Bond Futures	RXA Comdty	EUR	EUX	HMUZ	EU	Interest Rates Index
Euro-Schatz Bond Futures	DUA Comdty	EUR	EUX	HMUZ	EU	Interest Rates Index
Japanese 10-Year Bond Futures (JGB)	JBA Comdty	JPY	TSE	HMUZ	JAP	Interest Rates Index
Long Gilt Futures	G A Comdty	GBP	LIF-NYSE	HMUZ	UK	Interest Rates Index
New Zealand 90-Day Bank Bill Futures	ZBA Comdty	NZD	SFE	HMUZ	NZ	Interest Rates Index
U.S. 10-Year Treasury Note Futures	TYA Comdty	USD	CBT	HMUZ	USA	Interest Rates Index
U.S. 30-Year Long Bond Futures	USA Comdty	USD	CBT	HMUZ	USA	Interest Rates Index
Brent Crude Oil Futures	COA Comdty	USD	ICE	FGHJKMNQUVXZ	--	Commodity Index
Coffee 'C' Futures	KCA Comdty	USD	NYB-ICE	HKNUZ	--	Commodity Index
Copper Futures	LPA Comdty	USD	LME	FGHJKMNQUVXZ	--	Commodity Index
Corn Futures	C A Comdty	USD	CBT	HMUZ	--	Commodity Index
Gasoil (IPE) Futures	QSA Comdty	USD	ICE	FGHJKMNQUVXZ	--	Commodity Index
Gasoline RBOB Futures**	XBA Comdty	USD	NYM	FGHJKMNQUVXZ	--	Commodity Index
Gold 100 Oz Futures	GCA Comdty	USD	CMX	GJMQVZ	--	Commodity Index
Heating Oil Futures	HOA Comdty	USD	NYM	FGHJKMNQUVXZ	--	Commodity Index
Live Cattle Futures	LCA Comdty	USD	CME	GJMQVZ	--	Commodity Index
Natural Gas Futures	NGA Comdty	USD	NYM	FGHJKMNQUVXZ	--	Commodity Index
Primary Nickel Futures	LNA Comdty	USD	LME	FGHJKMNQUVXZ	--	Commodity Index
Primary Aluminum Futures	LAA Comdty	USD	LME	FGHJKMNQUVXZ	--	Commodity Index
Silver 5000 Oz Futures	SIA Comdty	USD	CMX	FHKNUZ	--	Commodity Index
Soybean Futures	S A Comdty	USD	CBT	FHKNQUX	--	Commodity Index
Soybean Meal Futures	SMA Comdty	USD	CBT	FHKNQUVZ	--	Commodity Index
Soybean Oil Futures	BOA Comdty	USD	CBT	FHKNQUVZ	--	Commodity Index
Sugar #11 Futures	SBA Comdty	USD	NYB-ICE	HKNV	--	Commodity Index
Wheat Futures	W A Comdty	USD	CBT	HKNUZ	--	Commodity Index
WTI Crude Oil Futures	CLA Comdty	USD	NYM	FGHJKMNQUVXZ	--	Commodity Index
Zinc Futures	LXA Comdty	USD	LME	FGHJKMNQUVXZ	--	Commodity Index
Amsterdam Exchange Index Futures	EOA Index	EUR	EOE	FGHJKMNQUVXZ	NDL	Equity Index
CAC 40 10 Euro Index Futures	CFA Index	EUR	EOP	FGHJKMNQUVXZ	FRA	Equity Index
DAX Index Futures	GXA Index	EUR	EUX	HMUZ	GER	Equity Index
E-mini Dow Jones Industrial Average Futures	DMA Index	USD	CBT	HMUZ	USA	Equity Index
E-mini NASDAQ 100 Index Futures	NQA Index	USD	CME	HMUZ	USA	Equity Index
E-mini S&P 500 Index Futures	ESA Index	USD	CME	HMUZ	USA	Equity Index
E-mini S&P Midcap 400 Futures	FAA Index	USD	CME	HMUZ	USA	Equity Index
EURO STOXX 50 Index Futures	VGA Index	EUR	EUX	HMUZ	EU	Equity Index
FTSE 100 Index Futures	Z A Index	GBP	LIF-NYSE	HMUZ	UK	Equity Index
FTSE JSE Top 40 Index Futures	AIA Index	ZAR	SAF	HMUZ	S.AF	Equity Index
FTSE MIB Index Futures	STA Index	EUR	MIL	HMUZ	ITL	Equity Index
Hang Seng Enterprise Index Futures	HCA Index	HKD	HKG	FGHJKMNQUVXZ	HK	Equity Index
Hang Seng Index Futures	HIA Index	HKD	HKG	HMUZ	HK	Equity Index
IBEX 35 Index Futures	IBA Index	EUR	MPM	FGHJKMNQUVXZ	SPA	Equity Index
MSCI Taiwan Stock Index Futures	TWA Index	USD	SGX	FGHJKMNQUVXZ	TWA	Equity Index
Nikkei 225 (OSE) Index Futures	NKA Index	JPY	OSE	HMUZ	JAP	Equity Index
OMXS30 Index Futures	QCA Index	SEK	SSE-OMX	FGHJKMNQUVXZ	SWE	Equity Index
E-mini Russell 2000 Index Futures	RTAA Index	USD	NYF-ICE	HMUZ	USA	Equity Index
S&P TSX 60 Index Futures	PTA Index	CAD	MSE	HMUZ	CAN	Equity Index
ASX SPI 200 Index Futures	XPA Index	AUD	SFE	HMUZ	AUS	Equity Index
TOPIX Index Futures	TPA Index	JPY	TSE	HMUZ	JAP	Equity Index
Australian Dollar Futures	ADA Curncy	USD	CME	HMUZ	AUS	Currency Index
British Pounds Sterling Futures	BPA Curncy	USD	CME	HMUZ	GBP	Currency Index
Canadian Dollar Futures	CDA Curncy	USD	CME	HMUZ	CAD	Currency Index
Euro Futures	ECA Curncy	USD	CME	HMUZ	EUR	Currency Index
Japanese Yen Futures	JYA Curncy	USD	CME	HMUZ	JAP	Currency Index
Swiss Franc Futures	SFA Curncy	USD	CME	HMUZ	CHF	Currency Index

\* The Composite Index contains all of the above contracts.

\*\* The RBOB gasoline contract is proxied by the NY Unleaded gasoline (HUA Comdty) prior to Sept 2006.

**Table B.1: Information detailing the futures contracts which compose the StableRisk Indices.**

# Contract Risk Weights, By Year

Futures Contract Name	Index*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
10-Year Commonwealth Treasury Bond Futures	Interest Rates Index	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
2-Year U.S. Treasury Note Futures	Interest Rates Index	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month (Short) Sterling Interest Rate Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
3-Month Euro Euribor Interest Rate Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
3-Month Euro Swiss Franc Interest Rate Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
3-Month Euroyen Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
3-Year Commonwealth Treasury Bond Futures	Interest Rates Index	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
30-Day Federal Fund Rate Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
30-Day ASX Interbank Cash Rate	Interest Rates Index	1	1	1	1	1	1	0.5	0.5	0.5	0.5	0.5
90-Day EuroDollar Time Deposit Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
ASX 90-Day Bank Accepted Bills Futures	Interest Rates Index	1	1	1	1	1	1	0.5	0.5	0.5	0.5	0.5
5-Year U.S. Treasury Note Futures	Interest Rates Index	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canadian 10 Year Bond Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
Canadian 3-Month Bankers Acceptance Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
Euro-Bobl Bond Futures	Interest Rates Index	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
Euro-Bund Bond Futures	Interest Rates Index	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
Euro-Schatz Bond Futures	Interest Rates Index	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
Japanese 10-Year Bond Futures (JGB)	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
Long Gilt Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
New Zealand 90-Day Bank Bill Futures	Interest Rates Index	1	1	1	1	1	1	1	1	1	1	1
U.S. 10-Year Treasury Note Futures	Interest Rates Index	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
U.S. 30-Year Long Bond Futures	Interest Rates Index	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Brent Crude Oil Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Coffee 'C' Futures	Commodity Index									1	1	1
Copper Futures	Commodity Index							1	1	1	1	1
Corn Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Gasoil (IPE) Futures	Commodity Index						1	1	1	1	1	1
Gasoline RBOB Futures**	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Gold 100 Oz Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Heating Oil Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Live Cattle Futures	Commodity Index								1	1	1	1
Natural Gas Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Primary Nickel Futures	Commodity Index									1	1	1
Primary Aluminum Futures	Commodity Index							1	1	1	1	1
Silver 5000 Oz Futures	Commodity Index								1	1	1	1
Soybean Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Soybean Meal Futures	Commodity Index									1	1	1
Soybean Oil Futures	Commodity Index									1	1	1
Sugar #11 Futures	Commodity Index								1	1	1	1
Wheat Futures	Commodity Index								1	1	1	1
WTI Crude Oil Futures	Commodity Index	1	1	1	1	1	1	1	1	1	1	1
Zinc Futures	Commodity Index								1	1	1	1
Amsterdam Exchange Index Futures	Equity Index	1	1	1	1	1	1	1	1	1	1	1
CAC 40 10 Euro Index Futures	Equity Index	1	1	1	1	1	1	1	1	1	1	1
DAX Index Futures	Equity Index	1	1	1	1	1	1	1	1	1	1	1
E-mini Dow Jones Industrial Average Futures	Equity Index	0.5	.33	0.33	0.33	0.33	0.33	0.25	0.25	0.25	0.2	0.2
E-mini NASDAQ 100 Index Futures	Equity Index		.33	0.33	0.33	0.33	0.33	0.25	0.25	0.25	0.2	0.2
E-mini S&P 500 Index Futures	Equity Index	0.5	.33	0.33	0.33	0.33	0.33	0.25	0.25	0.25	0.2	0.2
E-mini S&P Midcap 400 Futures	Equity Index							0.25	0.25	0.25	0.2	0.2
EURO STOXX 50 Index Futures	Equity Index			1	1	1	1	1	1	1	1	1
FTSE 100 Index Futures	Equity Index	1	1	1	1	1	1	1	1	1	1	1
FTSE JSE Top 40 Index Futures	Equity Index								1	1	1	1
FTSE MIB Index Futures	Equity Index							1	1	1	1	1
Hang Seng Enterprise Index Futures	Equity Index									0.5	0.5	0.5
Hang Seng Index Futures	Equity Index	1	1	1	1	1	1	1	1	0.5	0.5	0.5
IBEX 35 Index Futures	Equity Index		1	1	1	1	1	1	1	1	1	1
MSCI Taiwan Stock Index Futures	Equity Index									1	1	1
Nikkei 225 (OSE) Index Futures	Equity Index	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
OMXS30 Index Futures	Equity Index								1	1	1	1
E-mini Russell 2000 Index Futures	Equity Index										0.2	0.2
S&P TSX 60 Index Futures	Equity Index								1	1	1	1
ASX SPI 200 Index Futures	Equity Index						1	1	1	1	1	1
TOPIX Index Futures	Equity Index	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Australian Dollar Futures	Currency Index							1	1	1	1	1
British Pounds Sterling Futures	Currency Index	1	1	1	1	1	1	1	1	1	1	1
Canadian Dollar Futures	Currency Index					1	1	1	1	1	1	1
Euro Futures	Currency Index	1	1	1	1	1	1	1	1	1	1	1
Japanese Yen Futures	Currency Index	1	1	1	1	1	1	1	1	1	1	1
Swiss Franc Futures	Currency Index	1	1	1	1	1	1	1	1	1	1	1

\* The Composite Index contains all of the above contracts.

\*\* The RBOB gasoline contract is proxied by the NY Unleaded gasoline (HUA Comdty) prior to Sept 2006.

**Table B.2: The weights in this table are the risk weight multipliers for each contract, by year. An entry specifies that the contract was included in the index in a given year. A non-unitary entry implies that the contract is part of a country group, as discussed in Section 2.**

# Market Impact Cost Assumptions, by Contract, by Year, in Basis Points

Futures Contract Name	Index*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
10-Year Commonwealth Treasury Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
2-Year U.S. Treasury Note Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
3-Month (Short) Sterling Interest Rate Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
3-Month Euro Euribor Interest Rate Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
3-Month Euro Swiss Franc Interest Rate Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
3-Month Euroyen Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
3-Year Commonwealth Treasury Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
30-Day Federal Fund Rate Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
30-Day ASX Interbank Cash Rates	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
90-Day EuroDollar Time Deposit Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
ASX 90-Day Bank Accepted Bills Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
5-Year U.S. Treasury Note Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Canadian 10 Year Bond Futures	Interest Rates Index	7.05	6.6	6.15	5.7	5.25	4.8	4.35	3.9	3.45	3	3
Canadian 3-Month Bankers Acceptance Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Euro-Bobl Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Euro-Bund Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Euro-Schatz Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Japanese 10-Year Bond Futures (JGB)	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Long Gilt Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
New Zealand 90-Day Bank Bill Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
U.S. 10-Year Treasury Note Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
U.S. 30-Year Long Bond Futures	Interest Rates Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Brent Crude Oil Futures	Commodity Index	14.80	13.86	12.91	11.97	11.02	10.08	9.135	8.19	7.245	6.3	6.3
Coffee 'C' Futures	Commodity Index	15.74	14.74	13.73	12.73	11.72	10.72	9.715	8.71	7.705	6.7	6.7
Copper Futures	Commodity Index	12.69	11.88	11.07	10.26	9.45	8.64	7.83	7.02	6.21	5.4	5.4
Corn Futures	Commodity Index	22.56	21.12	19.68	18.24	16.8	15.36	13.92	12.48	11.04	9.6	9.6
Gasoil (IPE) Futures	Commodity Index	31.72	29.7	27.67	25.65	23.62	21.6	19.57	17.55	15.52	13.5	13.5
Gasoline RBOB Futures**	Commodity Index	12.93	12.1	11.275	10.45	9.625	8.8	7.975	7.15	6.325	5.5	5.5
Gold 100 Oz Futures	Commodity Index	18.56	17.38	16.19	15.01	13.82	12.64	11.45	10.27	9.085	7.9	7.9
Heating Oil Futures	Commodity Index	19.03	17.82	16.60	15.39	14.17	12.96	11.74	10.53	9.315	8.1	8.1
Live Cattle Futures	Commodity Index	18.33	17.16	15.99	14.82	13.65	12.48	11.31	10.14	8.97	7.8	7.8
Natural Gas Futures	Commodity Index	13.16	12.32	11.48	10.64	9.8	8.96	8.12	7.28	6.44	5.6	5.6
Primary Nickel Futures	Commodity Index	13.39	12.54	11.68	10.83	9.975	9.12	8.265	7.41	6.555	5.7	5.7
Primary Aluminum Futures	Commodity Index	13.87	12.98	12.10	11.21	10.33	9.44	8.555	7.67	6.785	5.9	5.9
Silver 5000 Oz Futures	Commodity Index	32.9	30.8	28.7	26.6	24.5	22.4	20.3	18.2	16.1	14	14
Soybean Futures	Commodity Index	13.63	12.76	11.89	11.02	10.15	9.28	8.41	7.54	6.67	5.8	5.8
Soybean Meal Futures	Commodity Index	24.67	23.1	21.52	19.95	18.37	16.8	15.22	13.65	12.07	10.5	10.5
Soybean Oil Futures	Commodity Index	22.09	20.68	19.27	17.86	16.45	15.04	13.63	12.22	10.81	9.4	9.4
Sugar #11 Futures	Commodity Index	35.25	33	30.75	28.5	26.25	24	21.75	19.5	17.25	15	15
Wheat Futures	Commodity Index	18.8	17.6	16.4	15.2	14	12.8	11.6	10.4	9.2	8	8
WTI Crude Oil Futures	Commodity Index	14.1	13.2	12.3	11.4	10.5	9.6	8.7	7.8	6.9	6	6
Zinc Futures	Commodity Index	27.02	25.3	23.57	21.85	20.12	18.4	16.67	14.95	13.22	11.5	11.5
Amsterdam Exchange Index Futures	Equity Index	11.75	11	10.25	9.5	8.75	8	7.25	6.5	5.75	5	5
CAC 40 10 Euro Index Futures	Equity Index	4.7	4.4	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2	2
DAX Index Futures	Equity Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
E-mini Dow Jones Industrial Average Futures	Equity Index	9.4	8.8	8.2	7.6	7	6.4	5.8	5.2	4.6	4	4
E-mini NASDAQ 100 Index Futures	Equity Index	4.7	4.4	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2	2
E-mini S&P 500 Index Futures	Equity Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
E-mini S&P Midcap 400 Futures	Equity Index	9.4	8.8	8.2	7.6	7	6.4	5.8	5.2	4.6	4	4
EURO STOXX 50 Index Futures	Equity Index	11.75	11	10.25	9.5	8.75	8	7.25	6.5	5.75	5	5
FTSE 100 Index Futures	Equity Index	5.875	5.5	5.125	4.75	4.375	4	3.625	3.25	2.875	2.5	2.5
FTSE JSE Top 40 Index Futures	Equity Index	7.05	6.6	6.15	5.7	5.25	4.8	4.35	3.9	3.45	3	3
FTSE MIB Index Futures	Equity Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Hang Seng Enterprise Index Futures	Equity Index	9.4	8.8	8.2	7.6	7	6.4	5.8	5.2	4.6	4	4
Hang Seng Index Futures	Equity Index	4.7	4.4	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2	2
IBEX 35 Index Futures	Equity Index	14.1	13.2	12.3	11.4	10.5	9.6	8.7	7.8	6.9	6	6
MSCI Taiwan Stock Index Futures	Equity Index	21.15	19.8	18.45	17.1	15.75	14.4	13.05	11.7	10.35	9	9
Nikkei 225 (OSE) Index Futures	Equity Index	30.55	28.6	26.65	24.7	22.75	20.8	18.85	16.9	14.95	13	13
OMXS30 Index Futures	Equity Index	18.8	17.6	16.4	15.2	14	12.8	11.6	10.4	9.2	8	8
E-mini Russell 2000 Index Futures	Equity Index	7.05	6.6	6.15	5.7	5.25	4.8	4.35	3.9	3.45	3	3
S&P TSX 60 Index Futures	Equity Index	11.75	11	10.25	9.5	8.75	8	7.25	6.5	5.75	5	5
ASX SPI 200 Index Futures	Equity Index	7.05	6.6	6.15	5.7	5.25	4.8	4.35	3.9	3.45	3	3
TOPIX Index Futures	Equity Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Australian Dollar Futures	Currency Index	4.7	4.4	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2	2
British Pounds Sterling Futures	Currency Index	4.7	4.4	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2	2
Canadian Dollar Futures	Currency Index	3.525	3.3	3.075	2.85	2.625	2.4	2.175	1.95	1.725	1.5	1.5
Euro Futures	Currency Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Japanese Yen Futures	Currency Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1
Swiss Franc Futures	Currency Index	2.35	2.2	2.05	1.9	1.75	1.6	1.45	1.3	1.15	1	1

\* The Composite Index contains all of the above contracts.

\*\* The RBOB gasoline contract is proxied by the NY Unleaded gasoline (HUA Comdty) prior to Sept 2006.

**Table B.3: Market impact cost assumptions used in the StableRisk Index, for the years 2000 through 2010. These costs are listed in basis points (one-hundredth of a percent), and are assumed to be the cost of trading each contract, due to bid-ask spread, and temporary price displacement due to the transaction.**

## Transaction Commission Costs in Dollars, by Contract, by Year

Futures Contract Name	Index*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
10-Year Commonwealth Treasury Bond Futures	Interest Rates Index	11.54	10.80	10.07	9.33	8.59	7.86	7.12	6.38	5.65	4.91	4.91
2-Year U.S. Treasury Note Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
3-Month (Short) Sterling Interest Rate Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
3-Month Euro Euribor Interest Rate Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
3-Month Euro Swiss Franc Interest Rate Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
3-Month Euroyen Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
3-Year Commonwealth Treasury Bond Futures	Interest Rates Index	11.54	10.80	10.07	9.33	8.59	7.86	7.12	6.38	5.65	4.91	4.91
30-Day Federal Fund Rate Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
30-Day ASX Interbank Cash Rate Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
90-Day EuroDollar Time Deposit Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
ASX 90-Day Bank Accepted Bills Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
5-Year U.S. Treasury Note Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
Canadian 10 Year Bond Futures	Interest Rates Index	6.65	6.23	5.80	5.38	4.95	4.53	4.10	3.68	3.25	2.83	2.83
Canadian 3-Month Bankers Acceptance Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
Euro-Bobl Bond Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
Euro-Bund Bond Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
Euro-Schatz Bond Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
Japanese 10-Year Bond Futures (JGB)	Interest Rates Index	26.56	24.86	23.17	21.47	19.78	18.08	16.39	14.6	13.00	11.30	11.30
Long Gilt Futures	Interest Rates Index	6.37	5.96	5.56	5.15	4.74	4.34	3.93	3.52	3.12	2.71	2.71
New Zealand 90-Day Bank Bill Futures	Interest Rates Index	6.53	6.12	5.70	5.28	4.87	4.45	4.03	3.61	3.20	2.78	2.78
U.S. 10-Year Treasury Note Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
U.S. 30-Year Long Bond Futures	Interest Rates Index	4.70	4.40	4.10	3.80	3.50	3.20	2.90	2.60	2.30	2.00	2.00
Brent Crude Oil Futures	Commodity Index	10.46	9.79	9.12	8.46	7.79	7.12	6.45	5.79	5.12	4.45	4.45
Coffee C' Futures	Commodity Index	14.22	13.31	12.40	11.50	10.59	9.68	8.77	7.87	6.96	6.05	6.05
Copper Futures	Commodity Index	5.29	4.95	4.61	4.28	3.94	3.60	3.26	2.93	2.59	2.25	2.25
Corn Futures	Commodity Index	9.75	9.13	8.51	7.89	7.26	6.64	6.02	5.40	4.77	4.15	4.15
Gasoil (IPE) Futures	Commodity Index	10.46	9.79	9.12	8.46	7.79	7.12	6.45	5.79	5.12	4.45	4.45
Gasoline RBOB Futures**	Commodity Index	11.40	10.67	9.94	9.22	8.49	7.76	7.03	6.31	5.58	4.85	4.85
Gold 100 Oz Futures	Commodity Index	9.05	8.47	7.89	7.32	6.74	6.16	5.58	5.01	4.43	3.85	3.85
Heating Oil Futures	Commodity Index	11.40	10.67	9.94	9.22	8.49	7.76	7.03	6.31	5.58	4.85	4.85
Live Cattle Futures	Commodity Index	10.32	9.66	9.00	8.34	7.68	7.02	6.37	5.71	5.05	4.39	4.39
Natural Gas Futures	Commodity Index	11.40	10.67	9.94	9.22	8.49	7.76	7.03	6.31	5.58	4.85	4.85
Primary Nickel Futures	Commodity Index	5.29	4.95	4.61	4.28	3.94	3.60	3.26	2.93	2.59	2.25	2.25
Primary Aluminum Futures	Commodity Index	5.29	4.95	4.61	4.28	3.94	3.60	3.26	2.93	2.59	2.25	2.25
Silver 5000 Oz Futures	Commodity Index	7.05	6.60	6.15	5.70	5.25	4.80	4.35	3.90	3.45	3.00	3.00
Soybean Futures	Commodity Index	10.01	9.37	8.73	8.09	7.46	6.82	6.18	5.54	4.90	4.26	4.26
Soybean Meal Futures	Commodity Index	9.75	9.13	8.51	7.89	7.26	6.64	6.02	5.40	4.77	4.15	4.15
Soybean Oil Futures	Commodity Index	9.75	9.13	8.51	7.89	7.26	6.64	6.02	5.40	4.77	4.15	4.15
Sugar #11 Futures	Commodity Index	7.76	7.26	6.77	6.27	5.78	5.28	4.79	4.29	3.80	3.30	3.30
Wheat Futures	Commodity Index	9.75	9.13	8.51	7.89	7.26	6.64	6.02	5.40	4.77	4.15	4.15
WTI Crude Oil Futures	Commodity Index	11.40	10.67	9.94	9.22	8.49	7.76	7.03	6.31	5.58	4.85	4.85
Zinc Futures	Commodity Index	5.29	4.95	4.61	4.28	3.94	3.60	3.26	2.93	2.59	2.25	2.25
Amsterdam Exchange Index Futures	Equity Index	15.23	14.26	13.28	12.31	11.34	10.37	9.40	8.42	7.45	6.48	6.48
CAC 40 10 Euro Index Futures	Equity Index	7.26	6.80	6.33	5.87	5.41	4.94	4.48	4.02	3.55	3.09	3.09
DAX Index Futures	Equity Index	7.99	7.48	6.97	6.46	5.95	5.44	4.93	4.42	3.91	3.40	3.40
E-mini Dow Jones Industrial Average Futures	Equity Index	5.78	5.41	5.04	4.67	4.31	3.94	3.57	3.20	2.83	2.46	2.46
E-mini NASDAQ 100 Index Futures	Equity Index	6.32	5.92	5.51	5.11	4.71	4.30	3.90	3.50	3.09	2.69	2.69
E-mini S&P 500 Index Futures	Equity Index	5.29	4.95	4.61	4.28	3.94	3.60	3.26	2.93	2.59	2.25	2.25
E-mini S&P Midcap 400 Futures	Equity Index	6.32	5.92	5.51	5.11	4.71	4.30	3.90	3.50	3.09	2.69	2.69
EURO STOXX 50 Index Futures	Equity Index	3.64	3.41	3.18	2.95	2.71	2.48	2.25	2.02	1.78	1.55	1.55
FTSE 100 Index Futures	Equity Index	0.38	0.35	0.33	0.30	0.28	0.26	0.23	0.21	0.18	0.16	0.16
FTSE JSE Top 40 Index Futures	Equity Index	15.23	14.26	13.28	12.31	11.34	10.37	9.40	8.42	7.45	6.48	6.48
FTSE MIB Index Futures	Equity Index	15.23	14.26	13.28	12.31	11.34	10.37	9.40	8.42	7.45	6.48	6.48
Hang Seng Enterprise Index Futures	Equity Index	15.28	14.30	13.33	12.35	11.38	10.40	9.43	8.45	7.48	6.50	6.50
Hang Seng Index Futures	Equity Index	15.28	14.30	13.33	12.35	11.38	10.40	9.43	8.45	7.48	6.50	6.50
IBEX 35 Index Futures	Equity Index	11.75	11.00	10.25	9.50	8.75	8.00	7.25	6.50	5.75	5.00	5.00
MSCI Taiwan Stock Index Futures	Equity Index	5.88	5.50	5.13	4.75	4.38	4.00	3.63	3.25	2.88	2.50	2.50
Nikkei 225 (OSE) Index Futures	Equity Index	23.50	22.00	20.50	19.00	17.50	16.00	14.50	13.0	11.50	10.00	10.00
OMXS30 Index Futures	Equity Index	7.05	6.60	6.15	5.70	5.25	4.80	4.35	3.90	3.45	3.00	3.00
E-mini Russell 2000 Index Futures	Equity Index	6.32	5.92	5.51	5.11	4.71	4.30	3.90	3.50	3.09	2.69	2.69
S&P TSX 60 Index Futures	Equity Index	8.60	8.05	7.50	6.95	6.41	5.86	5.31	4.76	4.21	3.66	3.66
ASX SPI 200 Index Futures	Equity Index	13.30	12.45	11.60	10.75	9.91	9.06	8.21	7.36	6.51	5.66	5.66
TOPIX Index Futures	Equity Index	31.87	29.83	27.80	25.76	23.73	21.70	19.66	17.6	15.59	13.56	13.56
Australian Dollar Futures	Currency Index	2.12	1.98	1.85	1.71	1.58	1.44	1.31	1.17	1.04	0.90	0.90
British Pounds Sterling Futures	Currency Index	3.06	2.86	2.67	2.47	2.28	2.08	1.89	1.69	1.50	1.30	1.30
Canadian Dollar Futures	Currency Index	2.35	2.20	2.05	1.90	1.75	1.60	1.45	1.30	1.15	1.00	1.00
Euro Futures	Currency Index	4.23	3.96	3.69	3.42	3.15	2.88	2.61	2.34	2.07	1.80	1.80
Japanese Yen Futures	Currency Index	3.06	2.86	2.67	2.47	2.28	2.08	1.89	1.69	1.50	1.30	1.30
Swiss Franc Futures	Currency Index	2.82	2.64	2.46	2.28	2.10	1.92	1.74	1.56	1.38	1.20	1.20

\* The Composite Index contains all of the above contracts.

\*\* The RBOB gasoline contract is proxied by the NY Unleaded gasoline (HUA Comdty) prior to Sept 2006.

**Table B.4: Transaction commission cost assumptions used in the calculation of the StableRisk Indices, valued in US dollars, per contract, by historical year of the index. Values for years after 2010 will be determined by the Index Committee.**

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