

STANDARD
& POOR'S

S&P U.S.
PREFERRED STOCK INDEX
INDEX METHODOLOGY

March 2007

Table of Contents

Introduction	3
Highlights	3
Eligibility Criteria	4
Index Eligibility	4
Eligibility Factors	4
Timing of Changes	5
Index Construction	6
Approaches	6
Index Calculations	6
Index Maintenance	7
Rebalancing	7
Base Date	7
Corporate Actions	7
Index Data	9
Total Return and Net Return Indices	9
Index Governance	10
Index Committee	10
Index Policy	11
Announcements	11
Holiday Schedule	11
Unscheduled Market Closures	11
Index Dissemination	12
Index Alert	12
Tickers	12
FTP	12

S&P Contact Information	13
Index Management	13
Media Relations	13
Index Operations & Business Development	13
Disclaimer	14

Introduction

The S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market.

Highlights

The index is comprised of U.S. traded preferred stocks that meet criteria relating to minimum size, liquidity, exchange listing and time to maturity.

The index is calculated with a modified capitalization weighted scheme, with modifications being made to index shares to prevent single stock concentration and improve index liquidity.

The index is rebalanced once a year, in September, when index shares and constituents are reviewed. Corporate actions such as maturity, conversion, calls and delistings are treated according to a set of rules further defined in this document.

Eligibility Criteria

Index Eligibility

The index is comprised of U.S. traded preferred stocks that meet criteria relating to size, liquidity, issuance type, exchange listing and time to maturity.

Eligibility Factors

Exchange Listing. Preferred stocks trading on the NYSE, American Stock Exchange or NASDAQ are eligible. Over-the-counter, bulletin board and unregistered (144[A]) securities are excluded.

Type of Issuance. Preferred stocks issued by a company to meet its capital or financing requirements are eligible. These include floating and fixed rate preferreds, cumulative and non-cumulative preferreds, preferred stocks with a callable or conversion feature, and trust preferreds. Some trust preferreds issued by a company to meet its capital requirements carry a brand name or moniker – these are included. However, structured products and brand name products issued by financial institutions that are packaged securities linked to indices, baskets of stocks or another company's stock are excluded. Special ventures such as toll roads or dam operators may issue preferred-like securities – these are also excluded.

Maturity or Conversion Schedule. Preferred stocks that do not have a mandatory conversion or scheduled maturity within the next 12 months are eligible.

Market Capitalization. Preferred stocks with market capitalization of more than US\$ 100 million are eligible.

Volume. Preferred stocks that have traded a minimum of 250,000 shares for each of the previous six months are eligible.

Indicated Yield. Preferred stocks for which Standard & Poor's cannot determine an indicated dividend yield are not eligible.

Different Lines of the Same Issuer. If the initial eligibility basket has more than three lines of a single company's preferred stock, the smallest by market capitalization are removed until the count reaches three. Also, at least 15 trust preferred issuers are to be included in the index. In the event that less than 15 trust preferred issuers qualify based on the criteria above, the liquidity constraint will be relaxed and the largest stocks included until the count reaches 15.

Timing of Changes

Index rebalancings occur annually after the close of the third Friday in September. The reference date for additions and deletions is the last trading date of August.

Additions. Additions occur only at the annual rebalancings. There are no intra-year additions.

Deletions. A constituent is deleted intra-year if it is called or undergoes mandatory conversion. The annual rebalancing also results in deletions, if constituents no longer meet eligibility requirements.

Index Construction

Approaches

The index is based on modified market capitalization weighting and calculated by the divisor methodology used in Standard & Poor's equity indices.

Index Calculations

The initial divisor is set to have a base index value of 1000 on September 19, 2003. For an N stock index, the index value is simply the index market value divided by the index divisor.

$$\text{Index Value} = \frac{\text{Index Market Value}}{\text{Index Divisor}} \quad (1)$$

$$\text{Index Market Value} = \sum_{i=1}^N (\text{Index Shares})_i \times (\text{Price})_i \quad (2)$$

The index does not have a fixed number of stocks, so N varies from time to time. At each rebalancing, Index Shares are set to equal each constituent's outstanding shares as of the reference date.

$$(\text{Index Shares})_{i, \text{ after rebalancing}} = \text{Modified Outstanding Shares }_i \quad (3)$$

Modified Outstanding Shares are the outstanding shares for the preferred stock, except for certain large stocks where the outstanding shares are reduced so that their initial weight in the index falls below 10%. Commencing with the September 15, 2006 rebalancing, less liquid preferreds may also have reduced share counts to improve index basket liquidity.

At rebalancing, in order to maintain index series continuity, it is necessary to adjust the divisor.

$$(\text{Index Value})_{\text{ before rebalancing}} = (\text{Index Value})_{\text{ after rebalancing}} \quad (4)$$

Therefore,

$$(\text{Divisor})_{\text{ after rebalancing}} = \frac{(\text{Index Market Value})_{\text{ after rebalancing}}}{(\text{Index Value})_{\text{ before rebalancing}}} \quad (5)$$

Please refer to the S&P Index Mathematics document for more details. This index closely resembles market capitalization weighted indices discussed in that document.

Index Maintenance

Rebalancing

Index membership is reviewed annually. Rebalancing occurs after the close on the third Friday of September. The reference date for additions and deletions is after the close of the last trading date of August.

Base Date

The indices base dates are September 19, 2003. The base value, for both the price return and total return series, on that date is 1000.

Historical daily returns are available beginning on September 19, 2003.

Corporate Actions

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Shares called for cash or par value	If the issuer calls a constituent, it is removed from index after the close of the call date, or the first trading date of the call period, at the closing price. Note that the issuer may choose not to call, in which case no change is necessary.	Yes
Shares called for conversion or automatically converted	The constituent is removed from the index after the close of the conversion date, or the first trading date of the conversion period, at the closing price. If the issuer chooses not to invoke the right to convert and conversion is not automatic, no change is necessary.	Yes
Delisting from primary exchange	The constituent is removed at the closing price of the delisting date. (Occasionally, a constituent may be removed at zero price.)	Yes
Special cash distribution	The price of the stock making the special payment is reduced by the per share special payment amount after the close of trading on the day before the ex-date.	Yes
Rights offering on preferred share class (Rare occurrence)	The price is adjusted to the Price of Parent shares minus (Price of Rights shares/Rights Ratio).	Yes

Corporate Actions (continued)

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Preferred Stock Split (Rare occurrence)	Index Shares are multiplied by and the price is divided by the split factor.	No
Issuance of additional shares for the preferred share class in the index (Rare occurrence)	None. Shares are revised at the rebalancing.	No

Index Data

Total Return and Net Return Indices

The index has a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date t :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (6)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) \times (\text{Total Return Multiplier}_t) \quad (7)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} \times (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (8)$$

Index Governance

Index Committee

The U.S. Index Committee maintains Standard & Poor's U.S. indices. There are eight members of the committee; all are full-time professional members of Standard & Poor's staff. The Index Committee meets monthly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

Standard & Poor's considers information about changes to its U.S. indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

Announcements of additions and deletions are made at 05:15 PM Eastern Time.

Holiday Schedule

The index is calculated when the U.S. equity markets are open.

A complete holiday schedule for the year is available on Standard & Poor's Web site at www.indices.standardandpoors.com.

Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Index Alert

Complete data for index replication (including share counts, tickers and data on index levels and returns) are available through Standard & Poor's fee-based service, *Standard & Poor's Index Alert*.

Tickers

Index	Bloomberg
S&P U.S. Preferred Stock Index (Price Return)	SPPREF
S&P U.S. Preferred Stock Index (Total Return)	SPPREFTR

FTP

Daily stock level and index data is available via FTP on subscription.

For further information, please refer to Standard & Poor's Web site at www.indices.standardandpoors.com

S&P Contact Information

Index Management

David M. Blitzler, Ph.D. – Managing Director & Chairman of the Index Committee	
david_blitzler@standardandpoors.com	+1.212.438.3907
Howard Silverblatt – Senior Index Analyst	
howard_silverblatt@standardandpoors.com	+1.212.438.3916

Media Relations

David Guarino – Communications	
dave_guarino@standardandpoors.com	+1.212.438.1471

Index Operations & Business Development

North America

New York

Maureen O’Shea	+1.212.438.2046
Wendy Chan	+1.212.438.4080

Toronto

Tony North	+1.416.507.3204
------------	-----------------

Europe

Paris

Christopher O’Brien	+33.1.40.75.77.91
---------------------	-------------------

London

Susan Fagg	+44.20.7176.8388
------------	------------------

Asia

Tokyo

Seiichiro Uchi	+813.3593.8568
----------------	----------------

Beijing

Andrew Webb	+86.10.6535.2919
-------------	------------------

Sydney

Jason Hill	+61.2.9255.9872
------------	-----------------

Disclaimer

The report is published by Standard & Poor's, 55 Water Street, New York, NY 10041. Copyright © 2007. Standard & Poor's is a division of The McGraw-Hill Companies, Inc. All rights reserved. Standard & Poor's does not undertake to advise you of changes in the information contained in this report.

These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. Standard & Poor's makes no representation with respect to the accuracy or completeness of these materials, the content of which may change without notice. The methodology involves rebalancings and maintenance of the indices that are made periodically during each year and may not, therefore, reflect real time information. Standard & Poor's disclaims any and all liability relating to these materials and makes no express or implied representations or warranties concerning the accuracy or completeness of the report.

No portion of this publication may be reproduced in any format or by any means including electronically or mechanically, by photocopying, recording or by any information storage or retrieval system, or by any other form or manner whatsoever, without the prior written consent of Standard & Poor's.

Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process.