



April 28, 2021

Minutes of the Telbor Committee meeting held on April 27, 2021

Committee present:	members	Mimi Regev, Bank of Israel Markets Department (Committee Chairperson) Eyal Klein, Representative of ACI Israel (Forex) Ketty Cohen, Bank of Israel Markets Department
Observers:		Sharon Lavi, Tel Aviv Stock Exchange
Other participants:		Ran Abraham, Mizrahi-Tefahot Bank Michal Rot-Levy, Bank Hapoalim Liran Carmel, Bank Hapoalim Erez Shkuri, Bank Hapoalim Yossi Cuomo, Bank Hapoalim Zach Sharon, Bank Leumi Ian Klotnick, Israel Discount Bank Shuki Hay, First International Bank of Israel Rami Ogdan, First International Bank of Israel Tal Biber, Head of Markets Division, BOI Markets Department Tsila Billet Blank, BOI Markets Department

The issues that were discussed:

1. Bank of Israel Markets Division Head, Tal Biber presented the contributor banks with the conclusions from the internal discussions held at the Bank on the issue of the Telbor market, in order to raise the issues for a joint discussion.
Tal clarified that in view of the changes worldwide regarding benchmark interest rates, the Bank of Israel is uncomfortable with the manner in which the Telbor interest rate is conducted, particularly in view of the small number of contributors and the small number of transactions using the underlying asset. He also explained that worldwide there is uncertainty about forward looking interest rates, with the exception of Euribor. In order to keep Telbor in its current framework, the Bank of Israel needs to be convinced that in the future there will be a place for forward looking interest rates worldwide. Moreover, the Bank of Israel does not intend to remove the existing limitations until several more contributor banks are added.
In view of the above, and in view of the global trend in which the new benchmark rates are generally based on O/N interest rates from the repo market or the interbank loans market, the Bank of Israel recommends using O/N interest. Given the lack of a repo market or interbank loan market in Israel, it was suggested that this interest rate be the Bank of Israel declared

interest rate. Therefore, in transactions in the interest rate derivative market, it will be calculated as compounded in arrears—it will not be possible to forecast the interest rate payments in advance, but retroactively by cumulating the daily Bank of Israel interest rate over a specific period, until the payment date.

2. Most of the banks supported the proposal, and noted that the suggestion is in line with the global trend regarding benchmark interest rates. However, they noted that it is very important to develop a market-making mechanism in derivatives up to 1 year, and to accompany the process by developing BOI interest rate futures contracts on the TASE. They said that the market making commitment provides a response to creating an interest rate expectations curve. They also noted that the Telbor Committee meetings should continue, in order to carry out the process in a collaborative manner and in order to develop a mechanism of market making and to create futures contracts on the Bank of Israel interest rate.
3. Inherent in changing the benchmark interest rate is the need for automation adjustment and legal adjustment, both for existing open transactions as well as for new transactions. The banks asked the Bank of Israel to provide a precise formulation for calculating the interest compounded in arrears so that each bank could examine its preparations.
4. We note that some of the banks doubted the proposal, claiming that the suggested interest rate is not a market rate and does not reflect the bank risk, the underlying asset cannot be traded, and there is no example of this type of benchmark interest rate in the world. Additionally, they noted that there are still problems in the world with the short-term benchmark interest rates, particularly relating to the term structure curve and to the low trading volumes in futures contracts on the SOFR interest rate.
5. Bank of Israel representatives asked that over the next 2 weeks, each bank examine for itself what challenges are involved in changing the Telbor interest rate to the Bank of Israel interest rate (from the legal, operational, IT, analytical, and accounting perspectives, etc.) and to submit the main points in writing to the Bank of Israel. These materials will serve as a basis for discussion at the next Telbor Committee meeting or meetings.

Decisions reached at this meeting:

No decisions were reached at this meeting.