March 30, 2014

Minutes of the Telbor Committee meeting held on March 19, 2014

Committee members: Zahi Elias (banks' representative), Sharon Lavi from the Tel Aviv Stock Exchange, Ketty Cohen (Bank of Israel Market Operations Department), and Roy Stein (Bank of Israel Research Department – Committee Chairperson)

Other participants: Michal Rot-Levy and Yossi Cuomo (Bank Hapoalim), Guy Fischer (Bank Leumi), Dan Treister and Ian Klotnick (Discount Bank) and Ran Abraham (Mizrahi-Tefahot Bank)

1. Roy Stein presented to the participants the principles being formulated worldwide in the area of quoting interest rates used as benchmark rates. A discussion ensued on the following issues:

   - The Telbor market, as the Committee designed it, is completely different than the other benchmark markets, because the curve is based mainly on OIS transactions and not on inter-bank loans. Likewise, the quotes used for setting the Telbor interest rate are provided by the market makers, and they are committed to conduct transactions on the basis of the quotes around the time that the Telbor is set; in other benchmark markets there is no such requirement.
   - It is important to formulate Telbor market rules of conduct based on worldwide principles, but also with adjustment to the structural differences (noted above) between the Telbor market and other interest rate markets worldwide.
   - It is important that the Bank of Israel promote the development of the databases which include all Telbor derivative transactions, including transactions conducted by non-contributor banks (even those that do not operate in Israel).

2. In this meeting, statistical data were presented regarding the deviations of the banks' quotes with regard to the Telbor interest rate (in several interest rate ranges) and with regard to the overall transaction volume (by type of transaction and by classification of the counterparty—customers, contributor banks, and other banks). Please see Appendix 1 and Appendix 2. The following issues were raised in this regard:
   - Deviations of each one of the contributor banks are not great and only total several basis points.
   - Transaction volume continued to increase in 2013, especially the volume of 3-month OIS transactions.
   - Contributor banks must increase their efforts to conduct 1-month OIS transactions, and not just within the framework of the requirement set by the Committee to conduct transactions.

3. Committee members would like to praise again the representatives of the contributor banks that require other banks to conduct transactions on the basis of their quotes. This will increase Telbor market credibility and the demand for transactions.

4. The list of contributor banks was rearranged based on their share in volume of Telbor derivative transactions during 2013. Please see Appendix 3.

Appendix 1

Statistical data for the deviation of the quoted rates used to calculate the Telbor from the Telbor (one month, three months, and 12 months).

Figure 1.
Quoted Rate vis-a-vis Telbor for one month

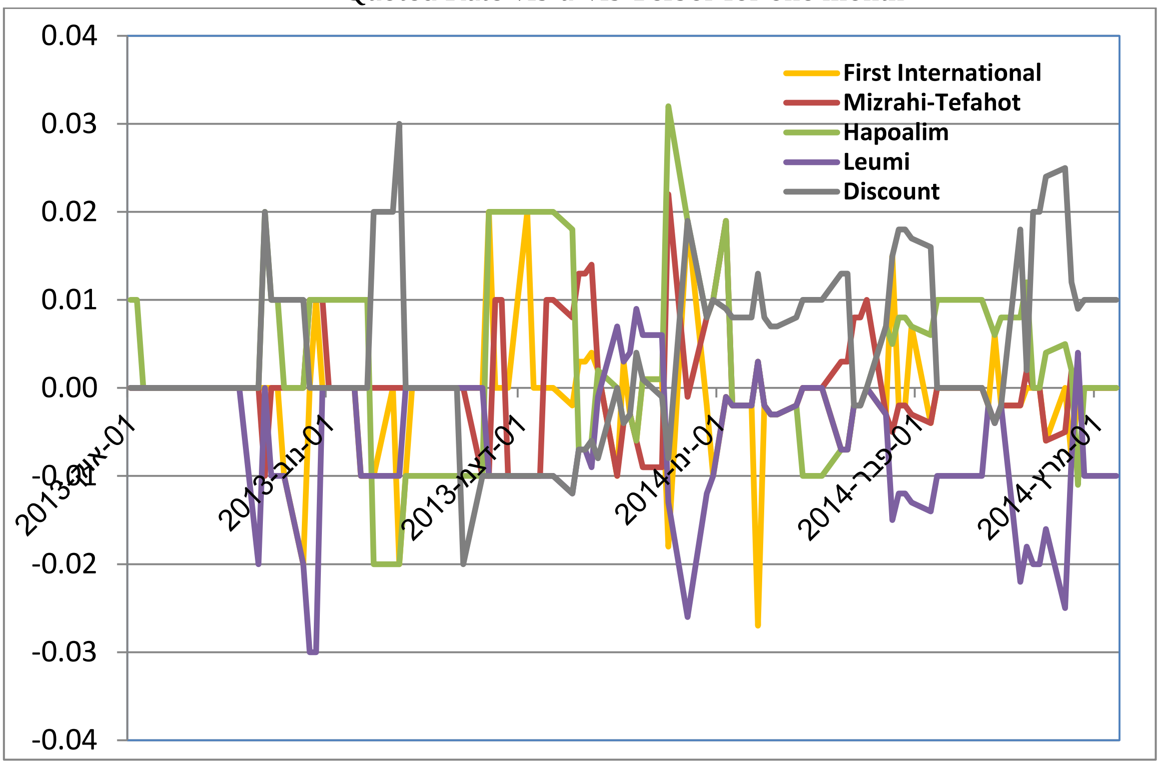


Figure 2.
Quoted Rate vis-a-vis Telbor for three months

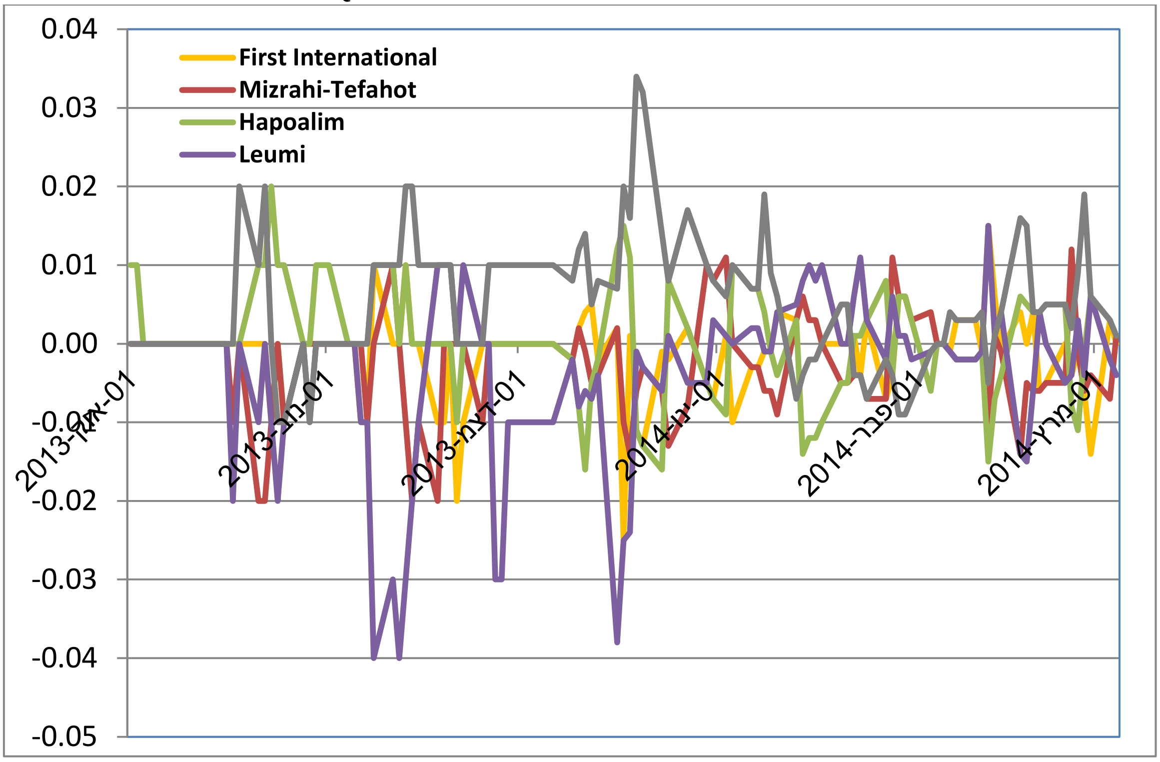
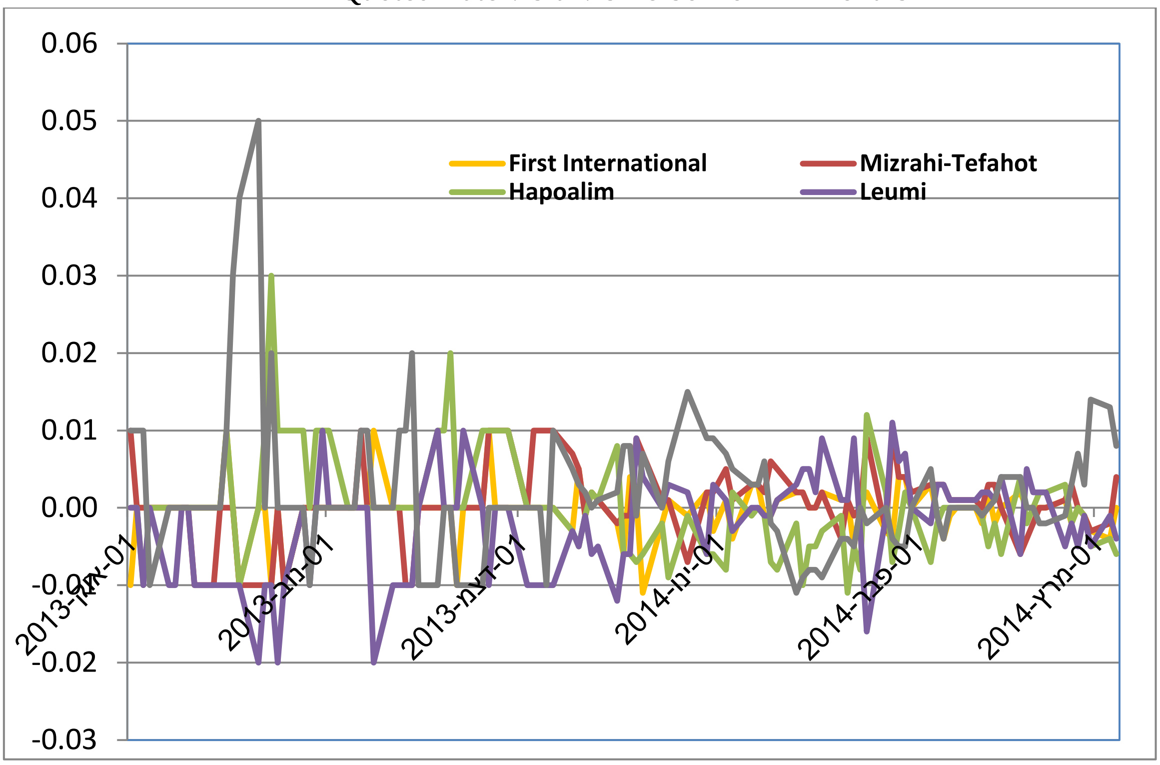


Figure 3.
Quoted Rate vis-a-vis Telbor for 12- months



Appendix 2

Telbor-based transaction data—2013

(NIS million)

First Quarter

	FRA	Cross Currency Swap	IRS—Interest Rate Swap Term to Maturity 1	2-5	6-10	Overnight Index Swap
Customer	6,800		6,450	7,531	1,484	1,600
Contributor banks*	4,650	603	4,450	3,603	1,875	2,500
Others	37,650	3,147	18,048	25,344	8,683	5,500
Total	**49,100**	**3,750**	**28,948**	**36,478**	**12,042**	**9,600**

Second Quarter

	FRA	Cross Currency Swap	IRS—Interest Rate Swap Term to Maturity 1	2-5	6-10	Overnight Index Swap
Customer	3,700	171	15,258	22,827	3,637	
Contributor banks*	800	182	4,725	8,631	2,314	1,950
Others	28,520	1,165	28,519	49,402	11,557	3,500
Total	**33,020**	**1,518**	**48,502**	**80,860**	**17,508**	**5,450**

Third Quarter

	FRA	Cross Currency Swap	IRS—Interest Rate Swap Term to Maturity 1	2-5	6-10	Overnight Index Swap
Customer	2,950		4,053	10,485	5,322	
Contributor banks*	2,600	321	900	2,986	1,246	100
Others	22,660	446	14,125	35,890	14,046	500
Total	**28,210**	**767**	**19,078**	**49,361**	**20,614**	**600**

Fourth Quarter

	FRA	Cross Currency Swap	IRS—Interest Rate Swap Term to Maturity 1	2-5	6-10	Overnight Index Swap
Customer	7,960		10,826	11,899	1,647	
Contributor banks*	5,750	868	300	1,743	669	2,900
Others	30,600	589	14,885	22,409	5,721	7,400
Total	**44,310**	**1,456**	**26,011**	**36,051**	**8,037**	**10,300**

* Reports on the transactions in this category are divided into two, in order to avoid duplication of reports on contributor banks' transactions.

Appendix 3

The list of quoting banks that are approved by the Telbor Interest Rate Committee

	Bank*
1	Bank Leumi
2	Bank Hapoalim
3	Israel Discount Bank
4	Mizrahi Bank
5	First International Bank

* The list is in descending order of the bank’s share of the total volume of the Telbor derivative transactions during 2013.