Forex Israel Tel Aviv Stock Exchange Bank of Israel

3/05/2010

Minutes of the Telbor Committee meeting of 8/04/2010

Present:

Committee Members: Sharon Lavi, Harel Cordova, Guenia de Mayo, and Roy Stein

Further to the conclusions reached at previous meetings, at which the need for determining an anchor for long-term Telbor interest rates was discussed, and on the basis of the statements of opinion of the contributing banks, the committee has defined a new obligation—a 3-month Overnight Index Swap (OIS). As a result of this obligation, which makes a connection between the one-business-day interest rate and the three-month interest rate, the interest rates quoted for three months (and for longer terms as well) will be heavily affected by short-term interest rates, by expectations regarding their development and by liquidity premiums. Credit risks will not be priced at the interest rates quoted, on the basis of which the Telbor interest rate is set. Nevertheless under the current regulations the Telbor interest rate can be used, as a benchmark for interest rates in the deposit and loan market—interest rates that include premiums matching specific credit risks. At the present meeting, the committee's members formulated the details of the proposed new obligation.[1] (See Appendix 1). Apart from this obligation, it is proposed to increase the quotation requirement for overnight transactions to NIS 50 million per transaction. The transaction amounts to which a commitment has been made will therefore be similar, thereby enhancing the credibility of the quotations for all terms, long and short-term terms alike.

Under the regulations and definitions in accordance with which the committee operates, these decisions will go into effect within 30 days, at the beginning of June.

Since the Banking Supervision defines the foreign contributing banks (Deutsche Bank and Barclays) as customers, their one-business-day deposits in domestic banks are subject to the reserve requirement, which makes them more expensive.[2] This enables the foreign banks to issue quotations lower than the market interest rate without having to worry that the domestic banks will want to take credit from them. The development of OIS transactions in Israel is likely to create an incentive for showing a preference for a one-business-day interest rate (ON). As stated, the foreign contributing banks will be able to do this, that is, quote interest rates lower than the market interest rate without fear of incurring a loss. The committee's members therefore decided to restrict the foreign banks in their ON quotations according to the following principal: The interest rate quotation will not be less than the lowest quotation among the domestic banks.

Together with these minutes, the Committee is also circulating the details of its proposed tradable contract (Appendix 2), for reactions from the representatives of the contributing banks. The Committee also invites the banks to submit their views on the chances of success of that contract. On receipt of the feedback, the Committee will reformulate its proposal and the details of the contract, and will submit it to the Tel Aviv Stock Exchange to advance the matter.

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[1] This obligation was accepted by a majority of the committee's members, and not unanimously.

[2] For this reason, in the past the committee’s members decided to grant local banks an exemption from the obligation to accept deposits from the foreign banks.

The Bank of Israel has received from the contributing banks data on Telbor-based interest-rate derivatives for 2009. As it undertook in its letter requesting the data, the Bank of Israel publishes the overall data. (See Appendix 3). On the basis of these data, a new list of contributing banks is determined, which will be published within 30 days (at the beginning of June) on the Reuters screen which presents the banks' quotations and the Telbor interest rates. This list is presented in Appendix 4 for your perusal.

APPENDIX 1

Details of the commitment in an OIS transaction

An OIS transaction is based on the 3-month and overnight Telbor interest rate (Telbor3 and ON).

Structure of the transaction: A fixed interest rate against geometric average Telbor ON interest rates of the relevant period.

Amount: NIS 50 million.

Quotation: the 3-month Telbor interest rate

Quotation margin: 6 base points for each side (12 BID/ASK points).

Commitment times: 11:30–12:00 (according to all the other obligations for conducting transactions, as determined by the committee).

Form of calculation for payment:

$$Amount \times (TELBOR03 - RFloat) \times \left[\frac{d}{365} \right]$$

Transaction amount = NIS 50 million.

TELBOR3 = 3-month Telbor interest rate.

RFloat = Geometric average of the one-business day (ON) Telbor interest rate for the period of the transaction, according to the following equation:

$$\left[\prod_{i=1}^{do} \left(1 + \frac{ON_i}{365} \times n_i \right) - 1 \right] \times \frac{365}{d}$$

d_o - for any Calculation Period, is the amount of Tel Aviv Banking Days in the relevant Calculation period.
i – is a series of whole numbers from one to d_o, each representing the relevant Tel Aviv Banking Day in chronological order from, and including, the first Tel Aviv Banking Day in the relevant Calculation Period.
n_i – is the number of calendar days in the relevant Calculation Period on which the rate is ON_i;
d – is the number of calendar days in the relevant Calculation Period.
ON_i = Overnight Telbor interest rate for day *i*.

Cash accounting: At the end of the period of the contract.

APPENDIX 2

Characteristics of the contract on the 3-month Telbor interest rate

Underlying asset: 3-month Telbor interest rate.

Amount of the contract: NIS 200,000.

Expiration dates: Once every three months in March, in June, in September and in December (three series exist at any given moment).

Lifetime of the contracts: 3 months to 9 months at margins of 3 months.

Last day of trading: The last day of trading (usually Monday) before the first Tuesday in the expiration month.

Expiration day: The first Tuesday in the expiration month.

Daily fluctuation limit: None.

Price quotations: 100 minus the interest rate in percentage points.

Quotation margins: 0.01.

Expiration price: Based on the 3-month Telbor interest set on the last day of trading (usually a Monday) before the expiration day.

Manner of accounting: Cash, daily, under the mark-to-market method.

Fluctuation margin:[3] NIS 5.

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[3] Calculated in the following manner: $\frac{0.01}{100} \times \frac{3}{12} \times contract\ \ size$

APPENDIX 3

Telbor rate transaction data
2009, NIS million

Q1

	FRA	CC Swap	IRS – Term to Maturity: 1	2-5	6-10
Customer	8,952		1,150	100	255
Foreign Bank	5,900	150	6,295	10,477	2,049
Local Bank*	5,488	207	2,288	2,465	184
sum	**20,340**	**357**	**9,733**	**13,042**	**2,488**

Q2

	FRA	CC Swap	IRS – Term to Maturity: 1	2-5	6-10
Customer	7,304		1,100	1,303	257
Foreign Bank	9,525		1,829	12,901	3,001
Local Bank*	3,652	253	938	1,720	795
sum	**20,481**	**253**	**3,867**	**15,924**	**4,053**

Q3

	FRA	CC Swap	IRS – Term to Maturity: 1	2-5	6-10
Customer	7,276	324	1,020	651	256
Foreign Bank	16,475	350	7,388	12,794	3,562
Local Bank*	3,625	95	2,338	2,505	275
sum	**27,376**	**769**	**10,746**	**15,950**	**4,093**

Q4

	FRA	CC Swap	IRS – Term to Maturity: 1	2-5	6-10
Customer	11,254	146	1,835	225	250
Foreign Bank	9,550	704	3,730	6,129	3,767
Local Bank*	2,050	48	638	857	603
sum	**22,854**	**898**	**6,203**	**7,211**	**4,620**

* In order to prevent double reporting, transaction reports in this category are divided into two.

Data for 2007 and 2008 were published in the minutes of the meeting that was held in February 2009. See the link: http://www.bankisrael.gov.il/deptdata/monetar/telbor/protocol/p200902.htm

APPENDIX 4

List of quoting banks that have been approved by the Telbor Interest Rate Committee

	Bank*
1.	Bank Leumi
2.	Bank Hapoalim
3.	Barclays Capital
4.	Israel Discount Bank
5.	United Mizrahi Bank
6.	Citibank
7.	First International Bank
8.	HSBC
9.	Deutsche Bank

* The list is in descending order according to the bank’s share the volume of Telbor derivatives during 2009.