



Forex Israel



Tel Aviv Stock Exchange



Bank of Israel

20 September 2011

Minutes of the Telbor Committee meeting held on September 7, 2011

Present

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

Guests: Guy Fischer, Ran Abraham, Dan Trister, Liraz Refaely, and Yossi Cuomo

1. Roy Stein updated those present on the Ministry of Finance's plans regarding of the issue of floating rate government bonds indexed to the Telbor interest rate. The Ministry of Finance plans to offer these bonds as early as 2012, and to that end is formulating regulations for the authorization of the Knesset Finance Committee. The Ministry of Finance plans to anchor the status of the Telbor interest rate committee in law, and thus assure the long term existence of the Telbor market, which is based on quotes by contributing banks. As such, the Ministry is seeking to issue a formal appointment letter for the committee, which aims to continue to operate under its present makeup. Accordingly, there was a discussion regarding the framework of the committee members' work and the decision making process. Following are the points raised in the discussion:
 - a. Harel Cordova, the banks' representative on the Telbor committee, said that banks should be formally required to quote interest rates in order to ensure the long term existence of the market, and through that ensure the existence of derivative instruments based on the Telbor rate, such as government bonds and futures contracts traded at the stock exchange. In order for interest rate quotes to move from a voluntary basis to a compulsory one, the Telbor Committee must receive authorization in principle from each contributing bank separately.
 - b. The Telbor Committee should formulize the decision making process. The proposal which was agreed on this issue is to establish that the committee is required to send invitations for each meeting to all representatives of the contributing banks, and it is the responsibility of the banks to update the committee on any change in their representation. Decisions at each meeting will be reached only by majority – representatives of the banks participating and members of the committee. Regarding this issue, several participants emphasized that the legal offices at the Bank of Israel and at the Ministry of Finance should be asked to help in setting up regulations for proper work administration by the Telbor Committee.
 - c. Based on the definitions and general rules set by the Telbor Committee, the Telbor interest rate is calculated automatically by the preset algorithm, on condition that there are quotes by at least five contributing banks for each time period. If there are less than five banks, the determining interest rate will not be calculated automatically and will not be publicized in the routine manner of the central information distributor, but instead will be published by the end of the day, at the responsibility of the committee members (see paragraph 1.5 in "General rules and definitions – the Telbor market"). In connection with this, it was noted that the members of the committee need to establish criteria and guidelines for the setting of the interest rate even in extraordinary situations in which there are very few quotes.

2. Sharon Lavi of the Tel Aviv Stock Exchange said that the stock exchange's work plans still do not refer to a change in definitions of interest rate contracts – but following repeated requests to advance the issue, specifically a change in the definitions of interest rate contracts and adjusting them to the Telbor market, Sharon will bring this issue up for discussion with TASE management.
3. It was decided that the definition of days on which the Telbor interest rate is set and published meets current needs, both of contributing banks and of nonresident investors, and there is no justified reason to change.
4. In a continuation of the discussion that began in the committee's previous meeting, about increasing the size of commitment to derivative transactions—OIS, FRA, and IRS—two alternative proposals were reached: (1) to increase the commitment to 50 million for IRS transactions and to 100 million for OIS and FRA transactions; (2) to allow contributing banks to ask for a transaction with one of the other contributing banks more than once, as long as at least 5 minutes passed between the transactions between the two banks. In any case, most of the participants were of the opinion that the current commitment levels—NIS 50 million for OIS and FRA, and 25 million for IRS transactions—are too low, and do not provide a significant economic incentive to carry out transactions in the framework of the commitment. A final decision in this matter, specifically choosing the better of the two alternatives, will be made at the next meeting of the committee.
5. One of the participants requested to discuss the need for institutionalizing the IRS market in addition to the Telbor market, and without direct connection with it. The participant claimed that the volume of IRS option trades grew in the last year, and even stepped up to a new level. In order to allow cash settlement at maturity (without delivery the principle between the sides), a mechanism for setting the interest needs be set up, according to which the sides to a transaction will be able to settle. Currently, such transactions are accounted for using local broker screens. It was noted that despite the rise in such transactions, not all banks operate in this market, and its overall volume remains relatively low. It was suggested to check how many banks are interested in taking an active role in this market, in order to check the possibility of putting together a general framework for institutionalizing it. Interested banks are requested to contact Roy Stein at the Bank of Israel.

It was decided that the next meeting of the Telbor Interest Rate Committee will take place after the upcoming Jewish holiday season, and the main issues at that time will be: adopting one of the two proposals regarding increasing the size of commitments, and receiving an update from Sharon Lavi regarding the TASE's work plans in terms of adjusting interest contracts to the Telbor interest.