October 5, 2016

Minutes of the Telbor Committee meeting held on September 13, 2016

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

Other participants:
Ran Abraham (Mizrahi-Tefahot Bank)
Ian Klotnick (Israel Discount Bank)
Dan Trister (Israel Discount Bank)
Michal Rot-Levy (Bank Hapoalim)
Zach Sharon (Bank Leumi)

The issues that were discussed:

1. In April 2015, the Committee decided to narrow the spread on committing transactions to 4 basis points (±2), both for overnight loan and deposit transactions as well as for interest rate derivative transactions. The Committee agreed that the narrower spread is indeed more effective, and for now there is no need to end this period.
2. In recent months several malfunctions occurred in transmitting the communication between contributor banks and Reuters, and the banks' quotes were not incorporated on the Telbor page of the Reuters system. The banks that experienced the problems worked in accordance with the set procedure, and the malfunctions were handled efficiently. However, Committee members wished to emphasize that it is important to adhere to the complete procedure for handling malfunctions in communicating Telbor interest rates and to send notices about them to all contact persons. The updated list will be distributed to representatives of the contributor banks within the framework of the updated procedure for handling technical malfunctions.
3. Recent reforms worldwide (Basel III, Dodd-Frank, and EMIR) require banks to allocate capital against over-the-counter (OTC) interest rate contracts. This capital allocation increases the cost of the transactions, which is liable to reduce the activity of foreign banks in such contracts, unless the transactions are cleared though an agreed-upon central clearing house. As Israel does not yet have such central clearing for interest rate contracts, foreign banks will begin to reduce their activity in Israel—apparently in 2017 already. It is important to emphasize that such an adverse impact on the interest rate derivatives market in Israel will lead to an increase in the economy's costs of raising debt, including government debt. In this

regard the Tel Aviv Stock Exchange (TASE) representative on the Telbor Committee, Sharon Lavi, reported that the Derivatives (Maof) Clearing House made contact with a foreign clearing house to examine the possibility of collaborating with it on building an infrastructure for central clearing of shekel interest rate derivatives. However, due to the short time frame and the concern of a negative impact on the costs of raising debt in Israel, Committee members recommend to regulators in Israel to formulate a comprehensive work plan, in complete collaboration with Telbor Committee representatives, to impose the standards generally applicable worldwide in the interest rate contracts market in Israel.

4. Requests to amend data and to present aggregate data:
   4.1 It should be confirmed that the open positions in interest rate contracts are classified by current term to maturity and not by original transaction date.
   4.2 Historical transaction data is currently presented at a monthly frequency only for the preceding 12 months. Participants requested to present all available data at this frequency.