



April 27, 2017

Minutes of the Telbor Committee meeting held on April 6, 2017

Committee members present:

Roy Stein (Chairperson), Bank of Israel
Research Department
Zahi Elias (banks' representative)
Sharon Lavi (Tel Aviv Stock Exchange)

Committee members absent:

Ketty Cohen, (Bank of Israel Market
Operations Department)

Other participants:

Ran Abraham (Mizrahi-Tefahot Bank)
Refael Amanou (First International Bank)
Dan Trister (Israel Discount Bank)
Michal Rot-Levy (Bank Hapoalim)
Zach Sharon (Bank Leumi)

The issues that were discussed:

1. The list of contributor banks was reordered according to each bank's share of Telbor-derivative transaction volume during 2016. See Appendix 1.
2. In the previous meeting, the participants suggested to set, for several years forward, the precise dates on which the Telbor rate will not be fixed, and to add a note that these dates are subject to change in accordance with general elections, movement in Independence day observances, and unexpected events. (Note that the Committee set a clear rule that makes it possible to set the precise dates for the year ahead, but in the following years those dates are subject to changes that cannot be foreseen.) At the present meeting, the Committee reached the conclusion that publishing the dates for multiple years forward incorporates considerable risk—it is liable to mislead the financial entities that rely on it, notwithstanding the note related to possible changes. Therefore, the Committee will continue to determine and publish precise dates at the end of the calendar year, for the following calendar year, based on the rule appearing in the rules document and the definitions published on the Bank of Israel website.
3. The Committee investigated the trade data and the quotes of the entire system, among other reasons in order to examine the developments in the Telbor market. This investigation is particularly important against the background of the concern that the volume of foreign banks' activity declined due to the new regulation to which they are subject, as it increases the expense of their activity so long as the transactions are not cleared at an authorized central clearing house. Appendix 2 presents all the figures and tables examined in the course of the discussion. Following are the main findings from the discussion:

3.1 Transaction volume in 2016 lower than in 2015 in nearly all types of derivatives, but primarily in FRA. It is important to examine if this decline in fact derived from a decrease in activity of foreign financial entities.

3.2 Telbor interest rates are characterized by daily volatility that is lower than that of *makam* yields, and therefore allow easier identification of developments over time.

3.3 The spread between the quote and the transaction price in Telbor derivatives was less than 3 basis points in all transactions executed in 2016 and in the first quarter of 2017.¹

3.4 The balance of open positions was stable for most transaction types, but the balance in FRA and IRS for terms up to 5 years declined markedly. During the course of the discussion, participants noted that two improvements should be made in the data presented in the balances table: a. Include cancellation transactions (those that undo exist transactions) in the balance table. b. In order to categorize IRS transactions, the reference should be to the term to maturity at the time of constructing the table and not the transaction's original term to maturity.

¹ Calculations refer to FRA transactions for all terms and to IRS-3/12.

Appendix 1

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

	Bank*
1.	Bank Hapoalim
2.	Bank Leumi
3.	Israel Discount Bank
4.	Mizrachi-Tefahot Bank
5.	First International Bank

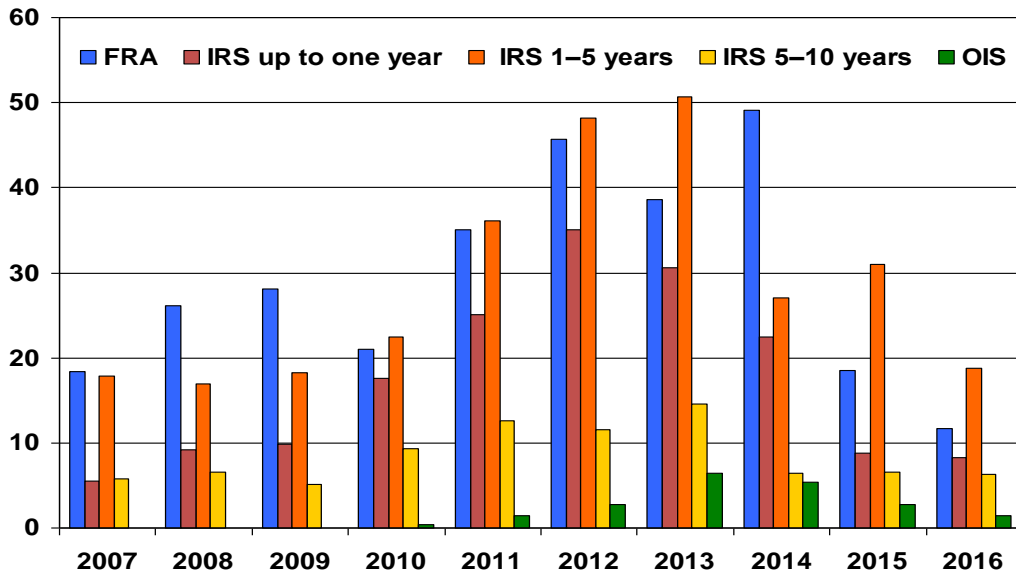
* The banks are listed in descending order of the share of the bank in the volume of the Telbor derivatives during 2016. Transactions on long term contracts received a higher weight when calculating activity volume, as they use Telbor interest rates to a greater extent: IRS transactions for terms to maturity of up to 4 years received a regular weighting, while transactions with terms to maturity of 4–10 years received a weight 3 times greater, and those with terms to maturity of over 10 years received a weight 4 times greater.

Appendix 2

Number of Telbor derivative transactions							
	OIS	FRA	IRS				CCS
			Up to 1 year	1–5 years	5–10 years	Over 10 years	
02/2017	14	2	52	77	34	9	16
01/2017	7	6	31	95	37	1	55
12/2016	4	8	60	92	33	1	42
11/2016	4	5	70	101	81	9	184
10/2016		2	12	34	31		15
09/2016	18		8	47	53	5	101
08/2016	7		16	38	48	7	62
07/2016	6	10	36	70	62	4	94
06/2016	6	3	23	48	40	18	71
05/2016	22	6	47	76	50	4	34
04/2016	2	3	22	47	14		37
03/2016	2	7	13	82	33	2	11
02/2016	2	8	19	72	35	2	100
01/2016	12	10	16	78	10	1	23

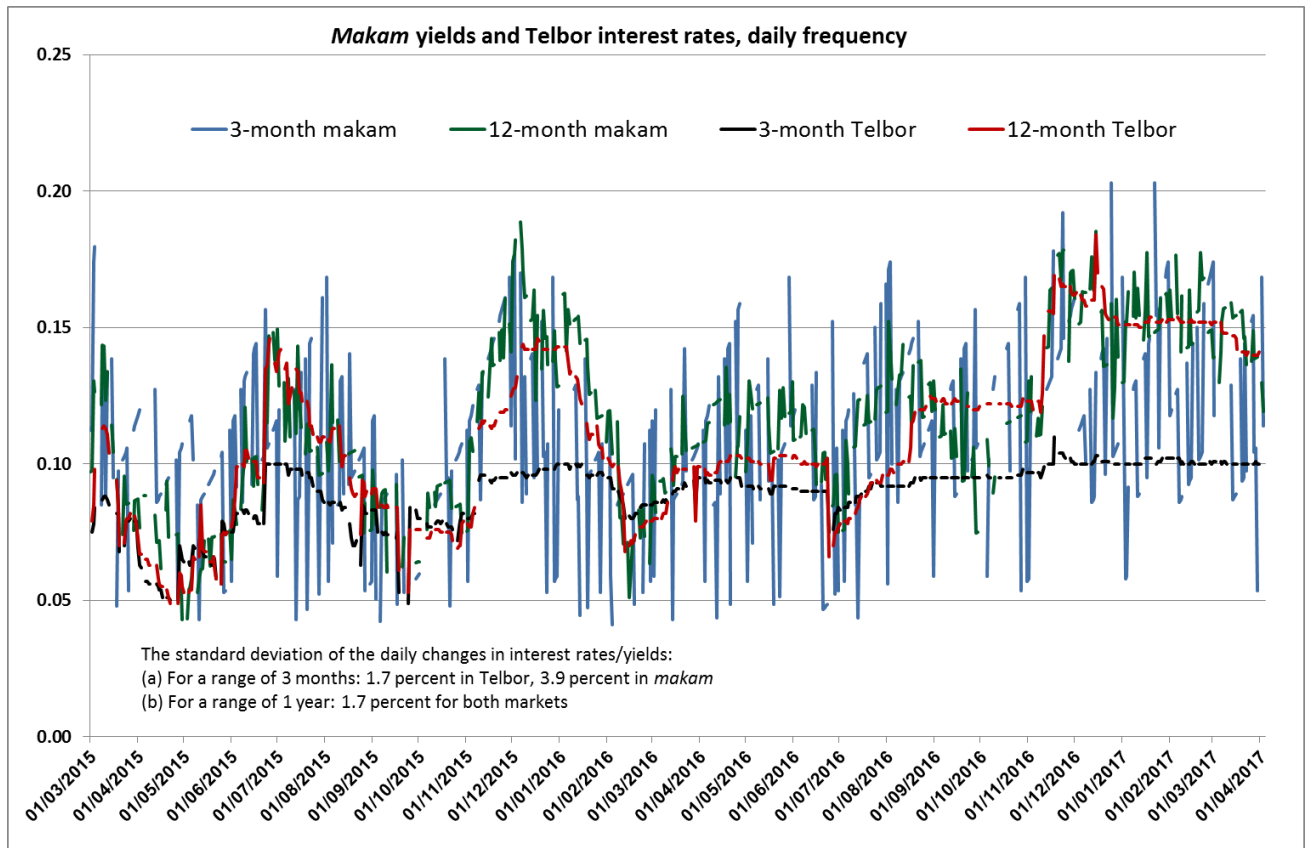
Telbor derivative transaction volume (NIS million), the five contributor banks							
	OIS	FRA	IRS				CCS
			Up to 1 year	1–5 years	5–10 years	Over 10 years	
01/12/2016	400	2,300	3,571	10,115	1,329	42	772
01/11/2016	600	4,000	3,358	7,611	2,991	465	2,360
01/10/2016		100	1,353	2,258	1,233		1,935
01/09/2016	694		739	5,480	2,266	442	1,252
01/08/2016	450		943	1,991	1,756	234	1,072
01/07/2016	450	2,750	4,498	5,217	3,131	114	1,605
01/06/2016	832	1,700	3,613	5,353	1,850	718	2,119
01/05/2016	1,893	9,900	5,088	10,266	1,848	190	137
01/04/2016	2	4,900	3,350	4,903	947		680
01/03/2016	61	6,000	2,475	7,268	2,395	80	1,502
01/02/2016	557	8,500	2,700	6,518	1,896	200	3,943
01/01/2016	484	6,950	1,261	8,107	333	50	860

Quarterly volume of interest rate derivative transactions (NIS billion), yearly average

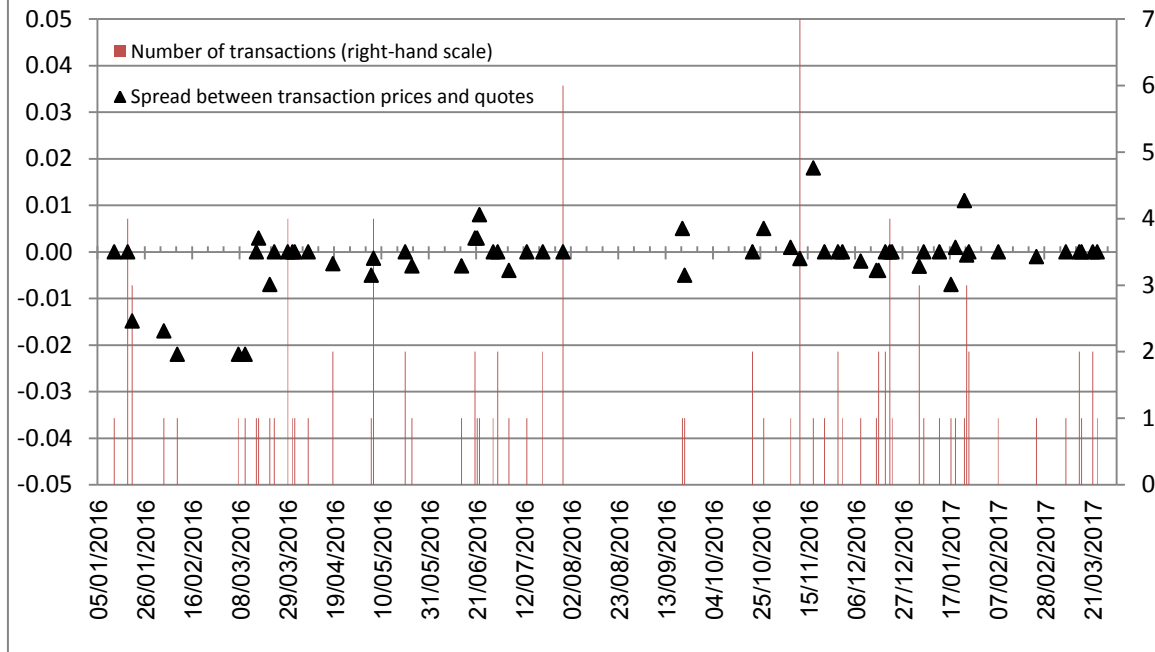


*At the end of 2012 and over the course of 2013 and 2014, foreign banks ended their activity as Telbor contributor banks due to developments in the global interest rate market. The activity of two out of the four foreign banks accounted for a major part of the activity of the contributor banks overall. Within the framework of their ceasing activity as contributor banks they stopped reporting to the Bank of Israel on their transactions in interest rate derivatives, but they continue to act in that market. Therefore, activity volumes in the figure are biased to the downside, particularly in 2014 and to some extent in 2013 as well.

** Beginning in 2015, IRS for maturities ranging from 6–10 years also include the transactions for terms to maturity of more than 10 years.



The spread between weighted average of transaction prices and the quote by the same bank that carried out the transaction



* Calculations refer to FRA transactions for all terms, and to IRS-3/12.