May 19, 2021

Minutes of the Telbor Committee meeting held on May 18, 2021

Committee members present:	Mimi Regev, Bank of Israel Markets Department (Committee Chairperson) Eyal Klein, Representative of ACI Israel (Forex) Ketty Cohen, Bank of Israel Markets Department
Observers:	Sharon Lavi, Tel Aviv Stock Exchange
Other participants:	Ran Abraham, Mizrahi-Tefahot Bank Michal Rot-Levy, Bank Hapoalim Yossi Cuomo, Bank Hapoalim Heli Siman Tov, Bank Hapoalim Zach Sharon, Bank Leumi Ian Klotnick, Israel Discount Bank Shuki Hay, First International Bank of Israel Rami Ogdan, First International Bank of Israel Tal Biber, Head of Markets Division, BOI Markets Department Tsila Billet Blank, BOI Markets Department Mickey Blank, BOI Markets Department
Guest	Itay Ruschkewitz, CPA – Complex of Alternative Finance—CoAF (on behalf of Bank Hapoalim)

The issues that were discussed:

1. The meeting discussed issues raised by the contributor banks after they examined internally the suggestion to perform the changes in two stages. In the first stage, trading in short-leg derivatives will use an O/N interest rate, which is the Bank of Israel's declared interest rate. In parallel, an effort will be made to promote and develop the repo market in Israel, and when that market is deep and liquid, it will be possible to base the relevant O/N rate from that market. It is important to note that this process is complex and is not expected to be relevant in the near term.

   The main questions that arose in the discussion:

- Is it right to use the declared interest rate in derivatives trading even though it does not reflect the financing costs in the private market? The banks agreed that the O/N Telbor rate is always the Bank of Israel interest rate, so in practice there is no problem.
- Is an IOSCO authorization process required for using the Bank of Israel interest rate? The Bank of Israel will examine the issue vis-à-vis the relevant entities.

- Worldwide, the transition from IBOR interest rates to O/N interest rates has been a very complex project, incorporating legal, operational, business-related, and other challenges. The question arose if it is not worthwhile to wait with changing the interest rate until there is evidence that the transition from LIBOR to SOFR, SONIA, and ESTER is in fact successful? That is, is trading volume in contracts and additional products accelerating and is the market succeeding in creating a term structure from these interest rates? At the discussion, it was decided that primarily in view of the changes in benchmark interest rates worldwide and the current situation, which may expose the domestic banks to Fixing risk, it seems necessary to decide on the change currently.
- Currently there is no country in the world that has adopted the central bank's interest rate as a benchmark rate, as in those countries it can be based on the repo market or on the interbank market. Can our being an exception compared to the rest of the world pose a problem?
  Already today, the Telbor interest rate in its current format is exceptional compared to the other IBOR rates worldwide, and nonetheless the derivatives market has used the above interest rate for years, with significant activity from foreign banks as well and recently even central clearing via LCH.
- The banks again raised the need to maintain a term structure in order to ensure the orderly functioning of the market. Therefore, they repeated their suggestion to develop a required quotation mechanism for terms of up to 1 year, without fixing, and to accompany the process with developing Tel Aviv Stock Exchange (TASE) futures contracts on the Bank of Israel interest rate. According to them, such commitment will provide a response to building a forward looking curve. The Bank of Israel will examine this issue.
  The TASE representative noted that in principle, the stock exchange would be happy to assist in developing futures contracts and to characterize the contracts for appropriate ranges, type of expiration, market making, etc. and together with that she noted that the process is still not ready for the TASE to take operative steps to advance the issue.
- From a legal perspective, the banks raised the need to work vis-à-vis ISDA and to assist with the formulation of the Fallback Language for existing derivatives. In addition, the need arose to find a solution as well for customers with whom the banks do not have ISDA agreements.
- From a technical/operational perspective, the banks raised the need to give sufficient time for preparation. The Bank of Israel is aware of this need and expects that the preparation period will be 1–2 years.

2. **In summary,** most of the banks expressed their support for the transition to O/N interest based on the Bank of Israel's declared interest rate.
   The Bank of Israel will examine the issues raised and will formulate an organized proposal and bring it for discussion at the next meeting.
   Banks that think of additional challenges during the coming period can contact the Bank of Israel with the issue and we will examine and relate to it accordingly.

   Decisions reached at this meeting:
   No decisions were reached at this meeting.