



**Summary of discussions and decisions of the Monetary Committee of March 25 and 26, 2012  
regarding the agreement for the liquidation of the assets of the risk funds of the Stock  
Exchange clearing houses**

**General background**

- The Tel Aviv Stock Exchange asked to reach a pre-approved agreement with the Bank of Israel which will make it possible to liquidate bonds<sup>1</sup> which were given to its clearing houses (the Stock Exchange Clearing House and the Maof Clearing House) by the clearing house members as security in the event of failure of a clearing house member.
- The backups for clearing house activities, in the event of a member's failure, are the current securities deposited at the clearing house in accordance with the positions opened by the members, and the securities provided by the members to the risk fund, the amount of which is revised every quarter. Clearing house members are required to deposit in the risk funds at least 25% of the securities in cash and the remainder in government bonds. According to the most recent update, the risks funds totaled NIS 2 billion.
- Each of the clearing houses acts as a central counterparty: When a clearing house member is unable to fulfill his obligations to members who conduct transactions with it, the clearing house must fulfill these obligations.
- The clearing houses and the Bank of Israel compiled an agreement whereby in the event of a member's failure, the clearing house will be entitled to sell bonds to the Bank of Israel as part of the realization of the securities given to it by the members, in return for an amount calculated in accordance with the formula determined in the agreement. All this is subject to the terms specified in the agreement, including: The purchase will be made only after the clearing house has realized the cash component of the members' securities, and the clearing house will use the proceeds of the sale solely for the purpose of fulfilling its obligations as central counterparty versus the other members deriving from the member's failure.

**Main points raised in the discussion**

- The major importance of final settlement of the Stock Exchange Clearing House within the Zahav RTGS system to the continued and proper functioning of the clearing houses, stock exchange trading and the capital market.
- The problem involved in immediate realization, at large amounts, of the bonds which the clearing houses hold as securities in the event of a failure. Accordingly, the members of the Committee emphasized the need for the clearing houses to increase the cash component of the securities.
- It was noted that the alternative of the Bank of Israel granting credit to the clearing houses against securities is preferable to the proposed arrangement. If the proposal included in the memorandum concerning the new mortgaging law, which was recently submitted to the Ministerial Legislation Committee, is approved, the Stock Exchange clearing houses will be able

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<sup>1</sup> The securities are government bonds and *makam*.

to realize the bonds which members give them as security by transferring the ownership of the bonds to themselves, and providing them as collateral against the receipt of credit from the Bank of Israel.

- Taking all these points into account and as a temporary solution, the Committee decided to approve the arrangement for one year.

### **Decision of the Monetary Committee**

The Committee's members approved the arrangement that was compiled between the Bank of Israel and the Stock Exchange Clearing House and the Maof Clearing House for the liquidation of their risk funds, in accordance with the terms specified in the agreement. The agreement will be valid for one year from the date when it is signed.

**The decision was reached on March 26, 2012.**

### **Participants:**

#### **Members of the Monetary Committee**

Prof. Stanley Fischer, Governor of the Bank of Israel, Chairperson of the Monetary Committee

Prof. Alex Cukierman, participated in the deliberations on March 26

Dr. Karnit Flug, Deputy Governor of the Bank of Israel

Prof. Reuben Gronau

Prof. Rafi Melnick

Mr. Barry Topf, Senior Advisor to the Governor on Monetary Policy Issues, participated in the deliberations on March 26

#### **Others present:**

Mr. Andrew Abir, Director of the Market Operations Department

Mr. Eddy Azoulay, Chief of Staff to the Governor

Ms. Tsila Billet, Assistant to the Secretary of the Monetary Committee and the Supervisory Council

Ms. Irit Mendelson, Deputy Director of the Market Operations Department

Ms. Mimi Regev, Head of the Market Surveillance and Analysis Unit

Ms. Esti Schwartz, Secretary of the Monetary Committee and the Supervisory Council

Adv. Tida Shamir, General Counsel