



June 24, 2010

## Rules of the Government Bonds Lending Facility

Considering that:

the Ministry of Finance ("M.O.F") in the name of the State of Israel, has established a lending facility of domestic Government bonds and that

\_\_\_\_\_ has been nominated as a Primary Dealer ("P.D.") in domestic Government bonds ("bonds" or "the bonds") and that

the P.D. is interested in borrowing bonds from the M.O.F. subject to these Rules and to the Rules of Primary Dealers in Domestic Government Bonds, it is hereby agreed that:

1. The P.D. can borrow bonds from the M.O.F's lending facility only as long as its nomination as a P.D. is valid.
2. The facility shall include fixed income bonds both nominal and CPI-linked with outstanding nominal value of 4 (four) billion ILS or higher, or 2 (two) billion ILS in bonds which are being issued ("on the run"), and whose remaining term to maturity is no less than 15 months. The M.O.F can change these parameters by giving a 30 days notice.
3. The P.D. can borrow bonds, via a Tel Aviv Clearing House ("TACH") member, up to a maximum market value of **1 billion ILS** or a different sum to be determined by the M.O.F.
4. The M.O.F's lending facility shall be operated by the TACH which will publish appropriate rules regarding its operations. The P.D. hereby commits to abide by these by-laws.
5. The contract between the M.O.F. and the TACH governing the operations of this Lending Facility is attached to these Rules and is part of them. A Primary Dealer shall act in accordance with the contract, the relevant regulations and the bylaws that the TACH will publicize from time to time.
6. In any case of contradiction between the contract and these Rules, the contract shall prevail. The contract is available (in Hebrew) on the web-site of the M.O.F.



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7. A borrowing transaction shall **not** be limited in time but the P.D. can terminate it at any time by giving notice to the TACH and returning the borrowed bonds. Notwithstanding, a transaction shall be terminated at the latest when the borrowed bonds have a remaining time to maturity of 1 year. At this time it is the responsibility of the P.D. to return the borrowed bonds, via a TACH member. Neither the M.O.F nor TACH are obliged to give the P.D. advance notice in this regard. Failure to comply with this section shall be deemed to be a material breach of these Rules.
8. A P.D. which had borrowed bonds and did not return them by the entitlement date for interest (as specified in the terms of the bonds), shall pay the gross interest payment according to the outstanding amount of borrowed bonds.

**9. Collateral:**

- 7.1. The P.D. shall deposit via the TACH cash collateral in a designated account of the M.O.F at the Bank of Israel ("the collateral account") equivalent to The market value of the bonds which have been borrowed by it and/or to the bonds which it requests to borrow.
- 9.1. The amount (sum) of collateral shall be updated on a daily basis ("mark to market"). The daily market value shall be determined as the product of the nominal value of the borrowed bonds and the closing price on the previous trading day at the Tel Aviv Stock Exchange, for each borrowed bond.
- 9.2. In the period between the entitlement day for interest (ex-coupon day) and the coupon payment day, the expected interest payment shall be added to the said collateral. The expected interest payment is derived from the borrowed amount at the end of the entitlement day.
- Upon payment day, the TACH shall debit the required interest payment from the P.D.'s cash account at the Bank of Israel or from the cash account of the borrower's clearing/paying agent.
- 9.3. If the required collateral exceeds the amount actually deposited in the collateral account, the TACH shall debit the cash account of the P.D. or its clearing/paying agent for the difference, and credit the collateral account.
- 9.4. If the required collateral is less than the sum actually deposited in the collateral account, the P.D. shall actively contact the TACH for the withdrawal of the excess funds.



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- 9.5. The M.O.F shall pay interest on the cash deposited in the collateral account. The interest rate to be paid shall be determined exclusively by the M.O.F.  
The current rate is the "Bank of Israel Rate" less a "borrowing fee" of 0.25% p.a.  
The interest shall be credited to the collateral account on a daily basis.
- 9.6. Failure to deposit the required collateral shall be deemed to be a material breach of these Rules.
10. In case of a material breach of these Rules by a P.D. the M.O.F. has the right to inter-alia:
- 10.1. Make use of the deposited collateral to acquire the borrowed bonds and/or to cover any other expense borne by the M.O.F.  
If the collateral shall be less than the said expenses, the P.D. shall be required to deposit the difference.
- 10.2. To prevent any further activity by the P.D. in this lending facility, in the MTS-Israel trading platform and in the auctions of Israeli Government bonds.
- 10.3. To cancel its nomination as a P.D. temporarily or permanently.
- 10.4. To sue the P.D.
11. Each borrower shall fill the form attached as **Appendix A** and return it to M.O.F. prior to using the lending facility.
12. A borrower which is not a member of the TACH shall enter into an agreement with a bank which is a TACH member for the clearing of the bonds ("Clearing Agent") and for the cash credit and debit ("Paying Agent"). The clearing/paying agent shall fill the form attached as **Appendix B** and return it to the M.O.F. prior to using the lending facility.



State of Israel  
Ministry of  
Finance



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Government Debt  
Management Unit



**Appendix A**

August, 2006

To:  
The Government Debt Management Unit  
Ministry of Finance  
State of Israel

We the undersigned, in the name of the Primary Dealer: \_\_\_\_\_  
agree to abide by these Rules of the Government Bond Lending Facility.

	Name	Title	Signature
1)	_____	_____	_____
2)	_____	_____	_____

(pls. affix Company stamp) \_\_\_\_\_



State of Israel  
Ministry of  
Finance



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Government Debt  
Management Unit



## Appendix B

### Paying/Clearing Agent Authorization

As we have agreed to act as the clearing and paying agent, both for the clearing of the bonds and for the cash credit and debit, with \_\_\_\_\_ ("the company"), which has been nominated by the M.O.F. as a Primary Dealer in Domestic Government Bonds and which is not a member of the TACH, we shall be responsible towards the M.O.F. according to the Rules of the Government Bonds Lending Facility (between the M.O.F. and the company) and to the contract between the M.O.F. and the TACH.

For the avoidance of doubt, our approval of a borrowing transaction of the company, shall be a final and irrevocable agreement to deposit the collateral required.

\_\_\_\_\_  
Stamp of the Clearing/Paying agent

	Name	Title	Signature
1)	_____	_____	_____
2)	_____	_____	_____