

## Rules of Primary Dealers Ranking

(October 2010)

1. **General** – these rules describe the procedures for the Primary Dealers Ranking:
  - 1.1. Primary market.
  - 1.2. Secondary market
2. **Definitions**
  - 2.1. **Primary market** – The arena where the bond issue takes place.
  - 2.2. **Secondary market** – The Arena where bond trading takes place after the issue (MTS platform).
  - 2.3. **Filler trading** – Indicates the side that provided liquidity to the market, meaning his quote was entered first to the system and the other side lifted it.
  - 2.4. **RFQ** – OTC transaction which takes place over MTS trading platform.
3. The parameters for the ranking and their relative weights are:
  - 3.1. Primary market – Total purchases (NIS) which will be taken into account for the ranking is the total acquisitions in the regular issuances auctions (excluding Green Shoe allocation auctions and switch auctions). Short Tbills (under 12 months) acquisitions will be calculated as 25% (the acquisition of NIS 100 face values will be calculated as NIS 25 for the purpose of ranking).
  - 3.2. Secondary market – adjusted calculation of the following parameters relating to the MTS system:

		Weight in the general ranking
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Trading	Total traded volume (order + filler)	40
	Traded volume (filler only)	25
Quotes	Average spread, adjusted by duration	20
	Time	5
	Size	10

#### 4. Calculation method:

- 4.1. For the purposes of calculating only the trade and quote of the non-fixed bonds (Shahar and ILGOV bonds) will be taken into account.
- 4.2. For the calculate of trading volume (total and filler volume), RFQ trades will be calculated as 33% (acquisition of NIS 100 face value will be calculated as NIS 33 for the purpose of ranking).
- 4.3. Each Primary Dealer that fails to comply at least 90% of the daily quoting obligation (spread, time and size) over the MTS system , will not be entitled to quoting scoring for that same day, and will be entitles only to the daily volume scoring (Example No. 3).
- 4.4. All parameters, excluding the average duration-adjusted spread, shall be calculated proportionately, based on percentage of total.

4.5. Calculation of the average duration-adjusted spread:

.45.1. Per each PD:

$$A_i = (\sum S_{i,j} / D_j)$$

$S_{i,j}$  – Monthly average spread of PD i on bond j

$D_j$  – Duration of Bond j

$\sum A_i$  – Summery of all Primary Dealers

.45.2. A lower weighted spread ( $A_i$ ) grants a PD with a higher ranking. Therefore, per each PD, complementary should be calculate as follows:

$$B_i = 1 - (A_i / \sum A_i)$$

.45.3. In order to get the relative percentage of each PD,  $B_i$  needs to be divided by the total sum of all PDs as follows:

$$C_i = B_i / \sum B_i$$

5. The PD's ranking shall be notified as follows:

- 5.1. Weekly – Each Primary Dealers will receive his relative ranking in the secondary market.
- 5.2. Monthly - Each Primary Dealers will receive his relative ranking in the secondary market.
- 5.3. Quarterly – publication of the ranking, in the primary market as well as in the secondary market.

Example No. 1 -  
Calculation of total traded volume ranking parameter

- Monthly traded regular volume – PD x: 6,000,000 NIS
- Monthly traded RFQ volume – PD x: 300,000 NIS
- Monthly traded regular volume – PD y: 2,000,000 NIS
- Total monthly traded volume:  
 $6,000,000+300,000*1/3+2,000,000=8,100,000$



- The adjusted score of PD x for the total traded volume:

$$\{(6,000,000+300,000*1/3)/8,100,000\}*40=30.12$$

- The adjusted score of PD y for the total traded volume:

$$(2,000,000/8,100,000)*40=9.88$$

- 40 indicate the weight given to the overall ranking trading volume.

## Example No. 2 -

Calculation of the average duration-adjusted spread ranking parameter

	Shahar 2683	Shahar 2690
Duration	6.78	1.06
Monthly weighted spread – PD x (BP)	25	20
Monthly weighted spread – PD x (BP)	10	30

	PD x	PD y
Ai	$(20/1.06+25/6.78)=22.56$	$(30/1.06+10/6.78)=29.78$
Bi	$1-[22.56/(22.56+29.78)]=0.57$	$1-[29.78/(22.56+29.78)]=0.43$
Ci	$0.57/(0.57+0.43)=0.57$	$0.43/(0.57+0.43)=0.43$

- The adjusted score of PD x for the average duration-adjusted spread:

$$0.57*20=11.4$$

- The adjusted score of PD y for the average duration-adjusted spread:

$$0.43*20=8.6$$

- 20 indicate the weight given to the average duration-adjusted spread ranking.

Example No. 3 -  
Calculation of the ranking of Primary Dealer that fails to comply at least 90%  
of the daily quoting duties

PD X traded 100 million nominal value and quoted 5 hours with the required spread and quantity.

PD Y traded 100 million nominal value and quoted 4 hours (less than 90%)

PD	Volume scoring	Quoting scoring	Total Scoring
PD X	$50\% * 65 = 32.5$	$100\% * 35 = 35$	67.5
PD Y	$50\% * 65 = 32.5$	$0\% * 35 = 0$	32.5