

Rules of Primary Dealers Ranking in CPI-Linked Bonds

(December 2010)

1. **General** – these rules describe the procedures for the Primary Dealers Ranking in CPI-Linked bonds :
 - 1.1. Secondary market
2. **Definitions**
 - 2.1. **Secondary market** – The Arena where bond trading takes place after the issue (MTS platform).
 - 2.2. **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.
 - 2.3. **RFQ** – OTC transaction which takes place over MTS trading platform.
3. The parameters for the ranking and their relative weights are:
 - 3.1. Secondary market – adjusted calculation of the following parameters relating to the MTS system:

		Weight in the general ranking
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 trades and quotes of the CPI-Linked bonds (Galil and ILCPI 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