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TEL-AVIV STOCK EXCHANGE



## Options on non-linked government bonds

The options will provide a large spectrum of investors with the means to more effectively manage interest rate risk in their portfolios. Investors can obtain the desirable level of exposure to mid-term and long-term interest rates while benefitting from the leverage, low costs and liquidity provided by options.

As is the case with other derivative instruments, the use of bond options focuses on three main areas:

- **An alternative to direct investment** - options offer an additional way to obtain exposure to bond markets;
- **Risk management** - options are an effective instrument for hedging interest rate risk;
- **Arbitrage trading** - options enable investors to take advantage of price differentials between bond and derivatives markets.

### Non-linked Israel government bonds

Non-linked Israel government bonds bear a fixed annual interest rate and are issued for up to 30-year maturities (to date the maturities at issue have not exceeded 20 years). The interest paid is the nominal value of the bond multiplied by the annual interest rate. The principal is repaid at maturity. Non-linked government bonds were first issued in 2006. In Q2/2011 the average daily turnover of this type of government bonds came to approximately NIS 1,413 million.

## Underlying assets

Underlying asset*	Time to maturity <sup>1</sup> (years)	Duration <sup>1</sup> (years)	Market Cap (Billion, NIS) <sup>1</sup>	Average Daily Turnover <sup>2</sup> (Million, NIS)	Volatility <sup>2</sup> (90 days)
IL GOV 5.5 2/17	8.6	7	13.2	215.3	3.3%
IL GOV 5.0 1/20	5.7	4.9	18.1	80.7	2.4%

(1) As of 04.07.2011.

(2) Based on market data for April 2011 – July 2011.

\* When the time-to-maturity of the underlying bond series reaches three years, the launch of new option series on these bonds will be discontinued and another bond series will be selected as the underlying asset for subsequent option series.

# Bond option specifications

<b>Underlying assets</b>	IL GOV 5.5 2/17, IL GOV 5.0 1/20
<b>Contract size</b>	NIS 100,000 bond par (face) value
<b>Exercise dates</b>	monthly
<b>Option lifetime</b>	one, two or three months
<b>Settlement date</b>	the second Friday of the exercise month
<b>Type of option</b>	European
<b>Price quote increments</b>	up to NIS 20 - increments of NIS 1 NIS 20-200 - increments of NIS 5 NIS 200-2,000 – increments of NIS 10 Over 2,000 – increments of NIS 20
<b>Final trading day</b>	the Wednesday preceding the second Friday of the exercise month
<b>Settlement price</b>	the opening price of the underlying asset on the final trading day preceding the settlement date
<b>Settlement</b>	cash
<b>Trading hours</b>	Sunday to Thursday, between 9:30-16:30
<b>Trading halts</b>	when trading in underlying bond is halted, option trading is halted as well.

## Interest Payments

Non-linked Israel government bonds pay annual coupons. Should an ex-interest date be scheduled during the time between the date a new series of options is opened and its exercise date, TASE will open contracts with exercise prices within a +/- 3% range of the closing dirty bond price minus the discounted impending coupon payment. In the same manner, for the purpose of margin calculations, TASE will take into account the dirty bond price minus the discounted impending coupon.

## For further queries and information please contact:

- **Sharon Lavy**, Unit manager, Trading and Settlement  
++972-3-5677669 [sharon@tase.co.il](mailto:sharon@tase.co.il)
- **Moshe Assis**, Head of product development, Trading and Settlement  
++972-3-5677610 [moshea@tase.co.il](mailto:moshea@tase.co.il)



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[www.tase.co.il](http://www.tase.co.il)

For further information, visit our website at: [www.tase.co.il](http://www.tase.co.il). You are also welcome to contact TASE Marketing and Communications Unit. Tel: [972] 3 567-7405/6

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