

Bank of Israel  
Monetary Department

Tel Aviv, December 15, 2002  
H-11-02-23-02a

**To:**  
**Banking Corporations**

## **Sale by Auction of Call and Put Options on the NIS–Dollar Exchange Rate**

### **1. General Remarks**

The Bank of Israel sells in Multiple Price auctions options on the representative NIS–USD (hereinafter: dollar) exchange rate that it advertises. The options offered are call and put options to three- and six-month terms.

The times and terms of the auctions shall be advertised in a circular that the Bank of Israel shall issue shortly before the date of each auction (hereinafter: the Auction Circular).

Orders for such auctions (hereinafter: orders) shall be accepted from Israeli banking corporations only (hereinafter: banking corporations). Orders shall be submitted to the Sales Desk at the Capital Market Unit of the Bank of Israel Monetary Department in Tel Aviv (hereinafter: the Sales Desk).

The options are not traded on the Tel Aviv Stock Exchange and are not transferable except among banking corporations. Registration of holders is performed at the Bank of Israel.

The contents of this circular apply to all options issued from January 2003.

For further information, contact Ms. Smadar Marovka at Tel. 9723-5640729 or [marovka@boi.gov.il](mailto:marovka@boi.gov.il), or Ms. Yaffa Alon at Tel. 03-5640745 or [yafaalon@boi.gov.il](mailto:yafaalon@boi.gov.il).

### **2. Terms of the Options Offered for Sale**

#### **a. Exercise Price**

The exercise price of the options is based on the forward USD exchange rate in terms of NIS per \$1, as calculated and determined by the Bank of Israel for each individual auction. Options at an exercise price of this kind are known as pure-at-the-money or at-the-money-forward options.

#### **b. Exercise Date**

- 1) Three-month options—the exercise date of the options shall fall on the Tuesday of the thirteenth week after issue.

Six -month options—the exercise date of the options shall fall on the Tuesday of the twenty-sixth week after issue.

The exact and binding exercise date shall be advertised in the Auction Circular that is released before each auction. In the event of a contradiction between the date shown in this circular and that shown in the circular of the

specific auction, the date determined in the circular of the specific auction shall prevail.

If the exercise date of the option falls on a day when the dollar exchange rate is not advertised, the exercise date of the option shall be postponed to the next day on which the dollar exchange rate is advertised.

- 2) Options shall not be exercised before their exercise dates. After the exercise date, the options will expire, will become null and void, and will confer no entitlement upon their holder.

### ***c. Exchange-Rate Differentials***

An option unit entitles its holder to the difference in NIS between the exercise price and the dollar exchange rate that the Bank of Israel advertises on the exercise date (hereinafter: the new exchange rate) multiplied by 1,000, for each type of option respectively and as the case may be, as explained below:

**Call options:** If the new exchange rate is higher than the exercise price of the option, each option unit shall entitle the holder to the difference in NIS between the new exchange rate and the exercise price, multiplied by 1,000.

**Put options:** If the exercise price of the option is higher than the new exchange rate, each option unit shall entitle the holder to the difference in NIS between the exercise price rate and the dollar exchange rate multiplied by 1,000.

## **3. Terms of the Auction**

### ***a. Auction Details***

The Bank of Israel will publish an Auction Circular for each auction individually. Each circular shall include the following details: auction date, type of options offered for sale, exercise price of the option, exercise date, minimum premium in NIS per option unit, series number, number of option units offered, and deadline for the submission of bids.

The Bank of Israel reserves the right to modify the terms of the auction if and when it sees fit—including the setting of a minimum call premium for the sale of the option, without disclosing said premium. In such a case, the Auction Circular shall note that the minimum premium will not be disclosed and that, consequently, the Bank of Israel does not undertake to sell the entire quantity.

### ***b. How to Participate in the Auction***

#### ***1) Placing Orders***

The options shall be sold to Israeli banking corporations only. Applications for the purchase of options shall be presented to the Sales Desk by means of the Sheba, Ltd., auction system (5 Droyanov St., Tel Aviv, Tel. 9723-5264646).

If for some technical reason orders cannot be forwarded by means of the Sheba system, they may be forwarded by means of the order form, filled in by hand and submitted by a messenger or by facsimile machine. **In any event, only orders that the Sales Desk receives by the auction date noted in the Auction Circular, and that meet the foregoing requirements, shall take part in the auction.** Thus, bidders are advised to assure their participation by submitting their applications in ample time before the submission deadline.

## 2) *Structure and Size of Bids*

Each application for participation in the auction is composed of “orders.” An order shall be composed of the number of option units desired and the appropriate premium (the price for the purchase of one option unit), expressed in NIS per option unit offered for payment. The number of option units shall be expressed in intervals of one unit and the premium offered, in NIS, shall be expressed in intervals of NIS 1. Orders shall be submitted in a rising order of premiums. Orders at subminimum premiums shall not take part in the auction (and shall not win) even if the minimum premium is not advertised. The maximum number of option units in an application by a banking corporation shall be twice the number of units offered by the Bank of Israel.

## 4. **The Auction Method**

### **a. *Allocation of Orders in a Multiple-Price Auction***

The orders submitted to the auction shall be filled on the basis of the premium—from the highest premium down to the premium at which the delivery of the full quantity offered ends or to the order at which the filling of all orders ends, whichever is smaller. The lowest premium at which a transaction is made shall be defined as the “auction premium.” Orders presented at a premium higher than the auction premium shall be met fully. Orders presented at a premium identical to the auction premium shall be met fully provided that the total number of option units in these orders is smaller than or identical to the difference between the total number of option units offered in the auction and the total number of option units provided at premiums exceeding the auction premium. If the total number of option units included in orders at the auction premium is larger, then each such order shall be met partly, pro-rated to the total number of option units ordered at the auction premium in the quantity of options that remains at this premium. Orders at premiums that are lower than the auction premium shall not be filled. The Bank of Israel shall advertise the average premium in the auction, computed on the basis of the weighted average of premiums in the winning orders, each premium weighted in accordance with the quantity provided in each order as against the total quantity of options sold in the auction.

### **b. *Notice to Winning Bidders***

At the end of the auction, the Bank of Israel, using the Sheba auction system, shall send each bidder whose bid was fully or partly met an itemized list of the winning bids (the premium and the number of options that the bidder won at said premium).

## 5. **Performance of Transaction and Registration of Options in Winning Bidders' Names**

Winning bidders shall pay the premium on the auction day by crediting their account with the Bank of Israel at the auction-day value. On the auction day, the options shall be registered with the Bank of Israel in the winning bidders' names.

On the exercise date, the Bank of Israel shall transfer exchange-rate differentials to banking corporations that are entitled thereto by debiting said corporations' accounts with the Bank of Israel.

By participating in the auction, the banking corporation signals its consent to the crediting of its account with the Bank of Israel for the sums that it must pay due to its having won the auction.

## **6. Rights Reserved to Bank of Israel**

The Director of the Monetary Department at the Bank of Israel, or h/her pro tem, or h/her deputy may change the minimum premium, whether or not it was advertised in the Auction Circular, or to decide not to carry out the auction, whether or not an Auction Circular was released, if circumstances that warrant this action occur, at h/her discretion.

The Bank of Israel also reserves the right to terminate the auctioning of the options at any time.

Respectfully,

Gabi Fiszman  
Assistant Director, Monetary Department

## Appendix A

### Order Form for Auction of Call and Put Options on the NIS–Dollar Exchange Rate

Date: \_\_\_\_\_-

Bank of Israel, Monetary Department  
Capital Market Unit, Sales Desk  
Tel Aviv

#### Re: Application for Purchase of Put or Call Options on the NIS–Dollar Exchange Rate

Type of option: \_\_\_\_\_ for term \_\_\_\_\_ Exercise price: \_\_\_\_\_ Series: \_\_\_\_\_  
Name of bidder: \_\_\_\_\_  
Address: \_\_\_\_\_  
Holder's number with Bank of Israel: \_\_\_\_\_  
Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

	<b>Premium per option unit, in whole NIS (in rising order)</b>	<b>Number of option units (Each option confers entitlement to exchange-rate differentials on \$1,000)</b>
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
<b>Total</b>		

Respectfully,

Name of bidder: \_\_\_\_\_  
Stamp of bidder: \_\_\_\_\_

Name of signatory on behalf of bidder: \_\_\_\_\_ Signature: \_\_\_\_\_  
Name of signatory on behalf of bidder: \_\_\_\_\_ Signature: \_\_\_\_\_