



TEL-AVIV STOCK EXCHANGE

TASE INDICES: NEW METHODOLOGY LAUNCH

January 2010

TASE INDEX DEVELOPMENTS

Criteria

- ✓ Gradual improvement of criteria
- ✓ Key change : Minimum free float raised from 7.5% to 25%

Float Adjustment

- ✓ Shares weighted according to free float value rather than total market value.
- ✓ Free float value – updated quarterly (with some exceptions) rather than daily

Number of Continuously-quoted Indices

- ✓ No. of continuously-quoted equity indices grew from 5 to 12 (Biomed Index coming soon)
- ✓ 4 Tel-bond indices launched



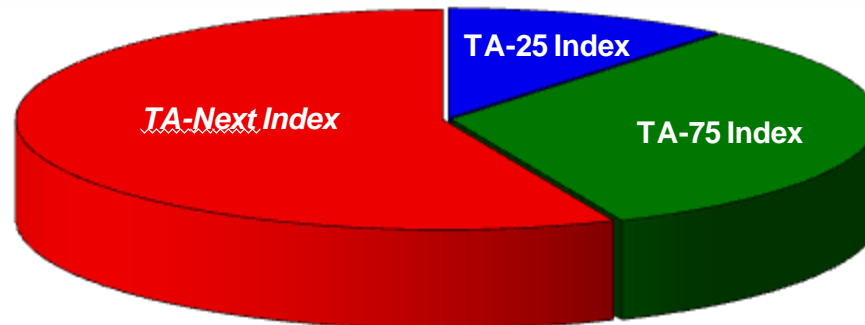
New Methodology - Key Objectives

- Improve TASE indices stability and ability and enable these to serve as tracking indices.
 - Reduce the number of replacements at the indices review date.
 - Prevent the phenomenon of not having enough shares that meet the criteria for populating indices at the indices review date.
 - Minimize daily adjustments of constituent weights stemming from weight-cap adjustments.
 - Reduce the adjustments of constituent weights stemming from changes in nominal value and public holdings.
- Standardization of rules governing all indices
- Based on the FTSE methodology



Universe of Eligible Securities

- Creation of a universe containing all shares meeting the criteria.
- TA-25 index, TA-75 index and *TA-Next index* (replacing *Yeter-120*) = entire universe of eligible shares



- All continuously-quoted equity indices will only be comprised of shares from the universe
- As of 15/12/2009 – the universe contains 220 shares



Universe Criteria – “Standard Shares”

- **Inclusion Criteria**

- Free float – 25% minimum
- Market value – NIS 70 million minimum (~ US \$18.5 million)
- Free float value – NIS 35 million minimum (~ US \$9.2 million)
- Liquidity ranking* – not exceeding 250

- **Exclusion Criteria**

- Free float falls below 25%
- Market value falls below NIS 50 million (~US \$13.2 million)
- Free float value falls below NIS 25 million (~US \$6.6 million)
- Liquidity ranking exceeding 300

* Criteria based on average daily turnover combined with the velocity of share turnover.



Universe Criteria – “Large Caps”

- **Inclusion Criteria**

- Free float – 20% minimum
- Market value – NIS 1 billion minimum (~ US \$263 million)
- Liquidity ranking* – not exceeding 250

- **Exclusion Criteria**

- Free float falls below 20%
- Market value falls below NIS 750 million (~ US \$197 million)
- Liquidity ranking exceeding 300

- Launch Criteria – according to exclusion criteria

- Does not apply to TA-25 - Free float remains 25% regardless of share size.



Free Float Scale

Eligible shares will be ranked according to 7 free float weight groups:

<u>Group</u>	<u>Free Float</u>	<u>Threshold for Downscaling</u>	<u>Reference Free Float for Setting Weight in Index</u>
A	20-25%	below 20%	20%
B	25-30%	below 25%	25%
C	30-35%	below 27.5%	35%
D	35-45%	below 32.5%	45%
E	45-60%	below 40%	60%
F	60-80%	below 55%	80%
G	80-100%	below 75%	100%



Weight Caps

Weight-Cap Adjustments

- Index share weight caps quarterly (rather than daily)
- Exceptions made for unusual events – Eg. entrance of new share to index
- Share weight in index will not exceed more than 50% of weight cap –
Eg. unscheduled weight-cap adjustments will be made if the cap is 10% and the weight of the share reaches 15%
- Weight caps coincide with update of index constituents (every six months), as function of no. of shares in index as follows:

<u>No. Shares/Type of Index</u>	<u>Weight Cap</u>
20 +	10%
10-19	15% or 20%
0-9	20% or equal weighting or no cap
Quality indices (Eg. Social responsibility index)	Equal weighting



Update Schedule

Quarterly Update

- Nominal value adjustment – only in cases of a 10% change (rather than a full adjustment)
- Free-float scale adjustment
- Index shares weight-cap adjustment

Weekly Update

- Nominal value adjustment – only in cases of a 10% change (as is now)
- Free-float scale adjustment will **not** be made on a weekly basis

Exceptional Equity Update

- Stock Split/Reverse-splits (as now)
- Unification of dual-class shares included in same index (as now)
- Rights offerings (new)



Share Replacements

- **Inclusion in an Index**

New shares enter an index if their market value ranking is several places higher than the last share in the index.

Eg. a share will enter the TA-25 only if its market value ranking is at least 20 among the relevant shares.

- **Exclusion from an index**

Shares in an index will be replaced if their market value ranking is at least several places lower than the last share in the index.

Eg. a share will be excluded from the TA-25 if its market value is ranked 30 or below among the relevant shares.

- **Index Completion**

If more shares are excluded from the index than enter it, shares with the highest market value will supplement the list until the index has the requisite number of shares and vice versa.



New Index and Changes to Existing Indices

- **TA General Index**

New index covering all universe shares (initially some 220 shares)

- **Changes to Existing Indices**

- ***TA-Next Index (temporary name)***

Replacing the *Yeter-120* index and will include all universe shares not included in the TA-100 index (~ 120 companies)

- **Finance Index**

Replacing the *Finance-15* index and will include all companies classified as financial services in the universe (~ 20 firms)



Index Updates

Quarterly Updates

<u>Reference Date</u>	<u>Announcement</u>	<u>Effective Date</u>	<u>Comments</u>
28 February	10 March	15 March	
31 May	10 June	15 June	Index composition review
31 August	10 September	15 September	
30 November	10 December	15 December	Index composition Review

Weekly Updates

<u>Reference and Announcement Date</u>	<u>Effective Date</u>
End of trading day before last trading day in week (Wednesday)	Morning of first trading in following week (Sunday)

