



# Liquidity Reform in the TASE Indices

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Indices Unit



# The Goal of the Indices' Reform

**The objective of the reform is to better the equity indices  
increase inflows (AUM) potential**

Improved liquidity will enhance index stability and increase investments.

## **In the United States**

NIS 7 trillion AUM in the S&P 500 Index alone, out of an overall market cap of NIS 40 trillion



**Potential of the Indices reform**

## **In Israel**

The penetration rate of the equity indices is 4% of the market cap of the underlying asset (NIS 40 billion out of the overall market cap of NIS 950 billion)

# TA-125 Index

In  
2022

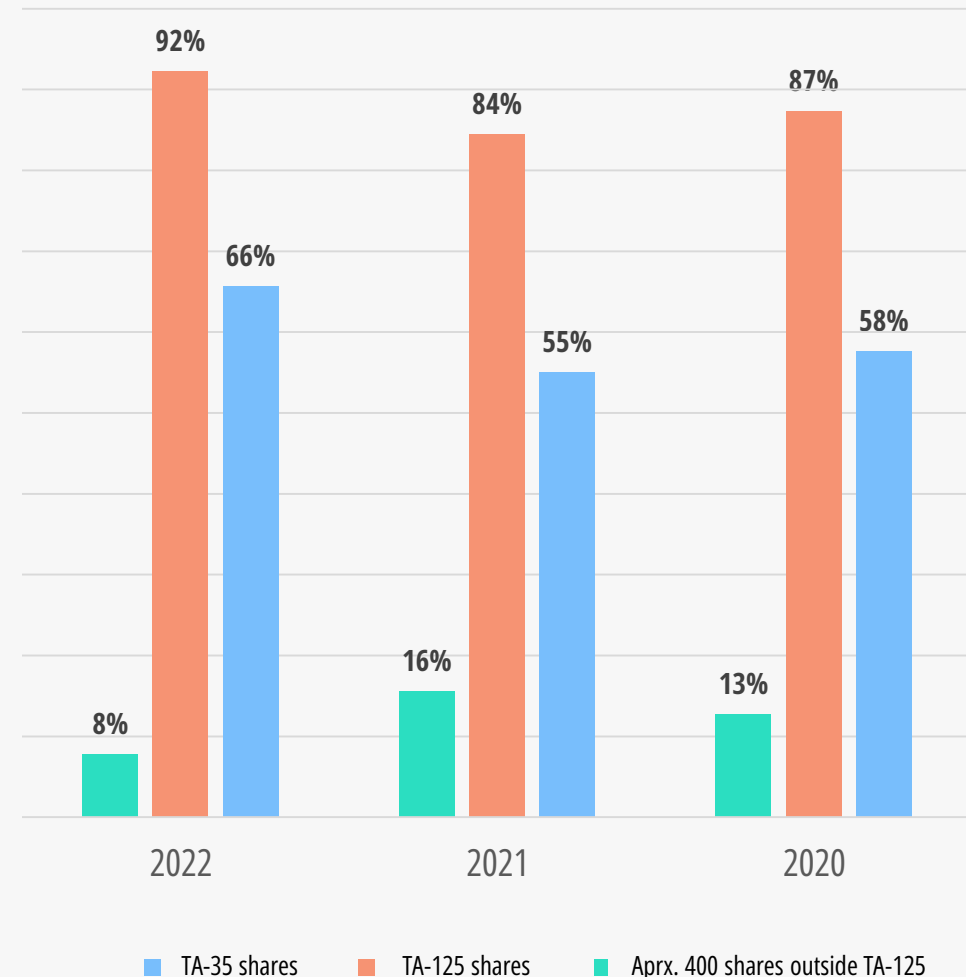
- TA-125 Index > **Over 90% of the trading volume**
- TA-35 Index > **66% of the trading volume**
- TA-125 Index > **Absolute increase of 30%**
- TA-35 Index > **Absolute increase of 40%**
- Ta-90 Index > **Increased by only 6%**

**The remaining shares, outside the TA-125 Index (aprx. 400 companies):**

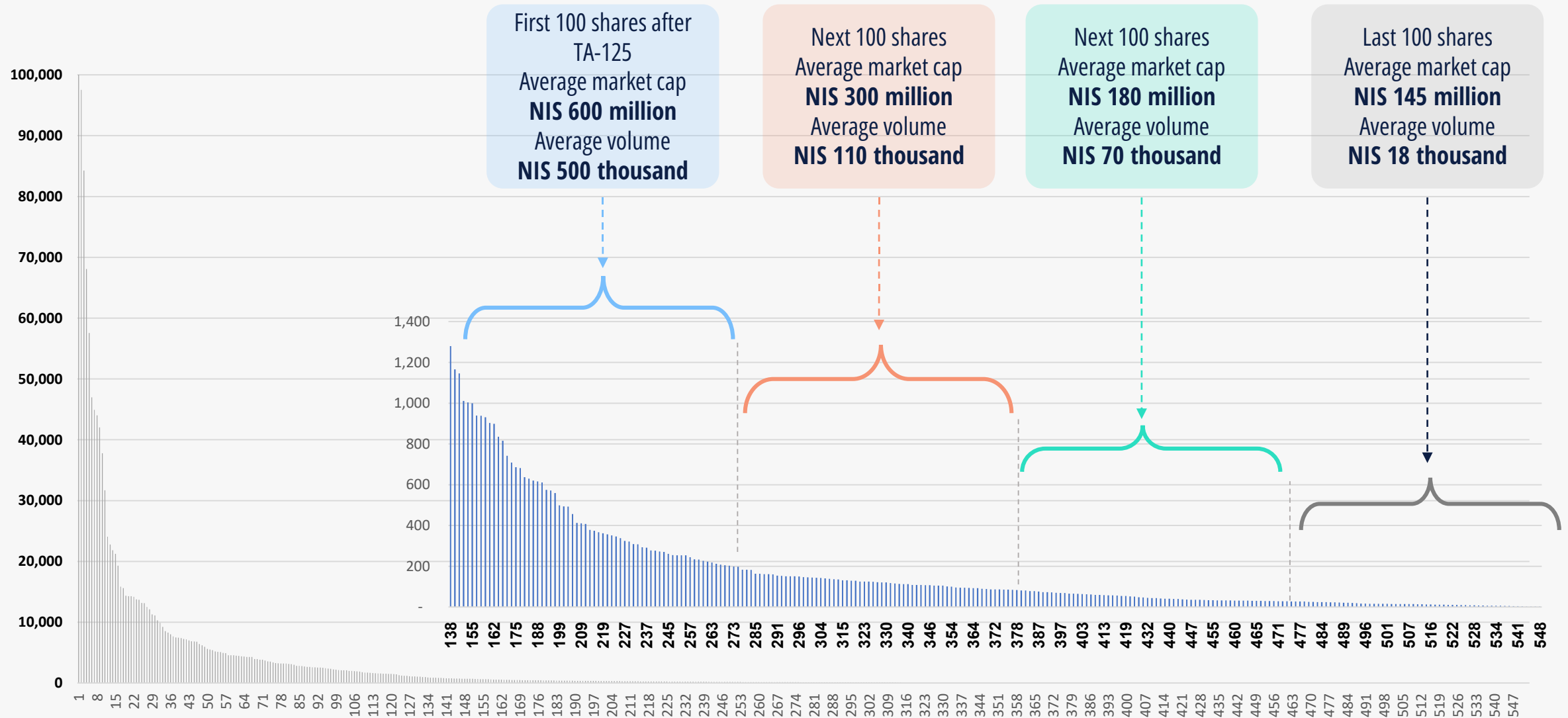
Account for 8% of the Equity trading volume

Decreased by 40% between 2021 and 2022

The Share of TA-125 shares in the trading



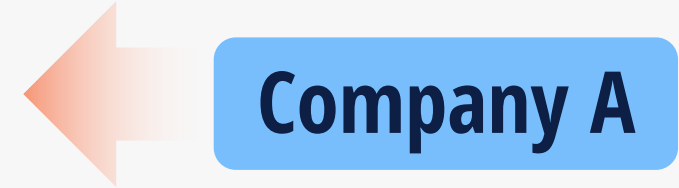
# Zoom In on Shares Outside TA-125, daily trading volume, 2022, NIS thousands



# Free Float Rate – Not Quite As It Seems...

## Private placement of blocked shares to institutional investors

- 34.5% free float before offering
- 40% free float after offering
- Jumps up to 45% free-float bracket
- High demand for buying the security shortly before entering the index



Introduction of the liquidity component will benefit the indices' investors

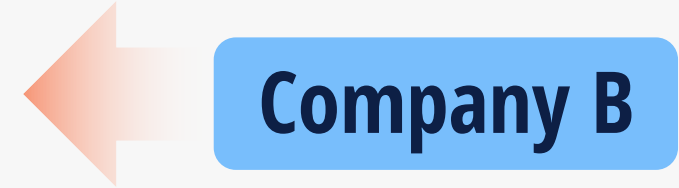
Objective limitations of the float calculation method adversely affect the holders



# Free Float Rate – Not Quite As It Seems...

## Distribution of blocked shares

- The company completes an IPO offering based on a NIS 450 million
- 15% blocked shares are considered free float
- Account for NIS 25 million of the offering (5%)
- Strong demands, no supply or sellers...



Introduction of the liquidity component will benefit the indices' investors

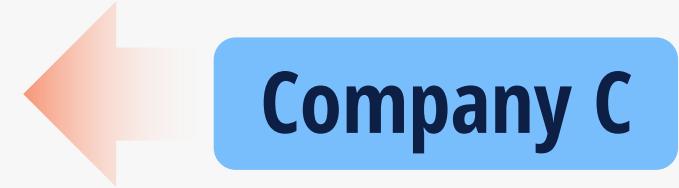
Objective limitations of the float calculation method adversely affect the holders



# Free Float Rate – Not Quite As It Seems...

**A number of family members each hold 4.9% and are considered by definition as free float**

**The free float rate for the purposes of the index is relatively high  
Accordingly, the security weight will be significant in the index  
In practice, there is insufficient supply for market trading**

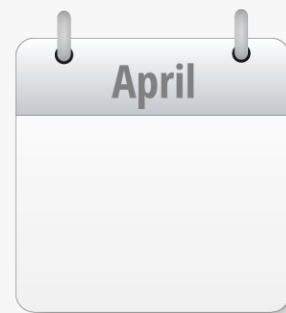
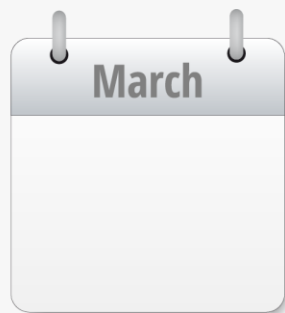
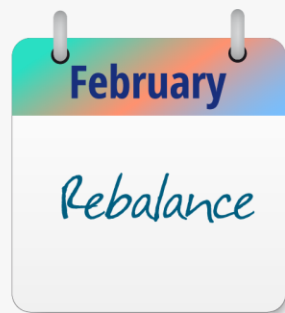


Introduction of the liquidity component will benefit the indices' investors

Objective limitations of the float calculation method adversely affect the holders



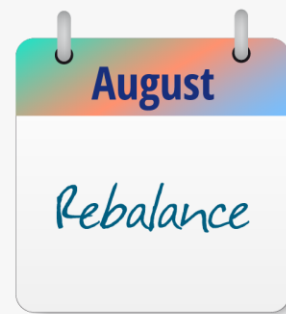
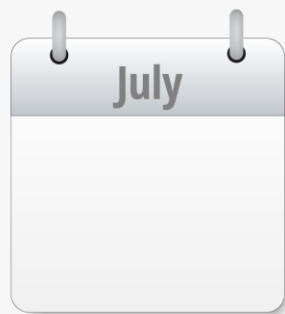
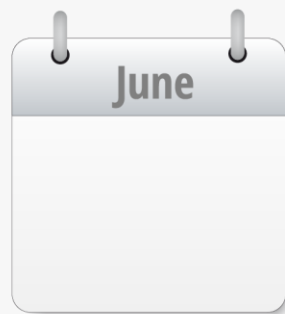
# Transition from Monthly to Quarterly Updates



**4 updates a year  
instead of 12**

**Tel-Div – single annual update in May**

**TA-125 Fossil Free, TA-Family, TA-Maala – single annual update in November**



# Rimon Universe – Changes of Threshold Criteria



## Liquidity Criteria

Among the 300 shares with the highest median daily trading volume

OR

Among the 300 shares with the highest median trading velocity



## Market Cap Criteria

Rated among the 300 shares with the highest average market cap among the shares that are expected to be included in the Tamar Universe



## Inclusion in Tamar Universe

A new share or a share included in Tamar – 10% free float rate and NIS 20 million average free float value

OR

Seasoned share or a share not included in Tamar – 15% free float rate , NIS 40 million average free float value



## Israeli Orientation



## Canceled

- Free float rate
- Free float value
- Average daily trading volume – NIS 50 thousand
- Non-inclusion in low-liquidity list



# Updating of the Indices' Weight Caps



## TA-Construction

Current weight cap - 5%



New weight cap

**10%**



## TA-Technology

Current weight cap - 5%



New weight cap

**10%**



## TA-RealEstate

Current weight cap - 3%



New weight cap

**5%**



## TA-SME150

New name:

**TA-MidCap150**



New weight cap

**2%**

# Fast Track Exclusively for New & Large Cap Shares

- For **New** Listing only
- Qualification period – **60 days** instead of 30 days
- Must meet the threshold criteria of the **Rimon Universe**
- Average market cap ranked among the 100 **largest-cap** shares in the Rimon Universe
- **Cancellation of fast track** in semi-annual updates



# Cancellation of the Free-Float Brackets Method



Cancellation of free float rate **brackets** method

**Exact** free float rate parameter, rounded to a whole percent

Re-set every **Quarterly** rebalance

Increase/Decrease in the free float rate is **limited to 5%** in relation to the existing parameter

# Liquidity Criterion in Leading Indices Administrators



- The definition of liquidity is based on the median annual trading velocity, which is measured in relation to the outstanding shares



- The FALR ratio is calculated every quarterly rebalancing
$$FALR = \frac{\text{Annual Dollar Value Traded}}{\text{Float Adjusted Market Cap}}$$
- Existing shares in the indices with a free float value of over \$ 300 million are required to attain an FALR of more than 50%
- Incoming shares with a free float value of over \$ 500 million are required to attain an FALR of more than 90%
- Incoming shares with a free float value of over \$ 400 million are required to attain an FALR of more than 150%



- Excluding the bottom quintile of shares with a minimum daily trading volume of \$ 10 million
- Downside – all shares with a free float rate below 15% will be eliminated



- Semi-annual review – monthly median of average daily trading volume
- Downside – the new methodology will cause shares that experience drastic price hikes to drop in the index

# The Liquidity Ratio

## New Parameter in the Share's Index Weight Equation

$$W_i^t = \frac{Q_i^t \times F_i^t \times L_i^t \times f_i^t \times P_{ib}^t}{\sum_{i=1}^n Q_i^t \times F_i^t \times L_i^t \times f_i^t \times P_{ib}^t}$$

Share's weight in the index

Index adjusted number of shares

Free float rate

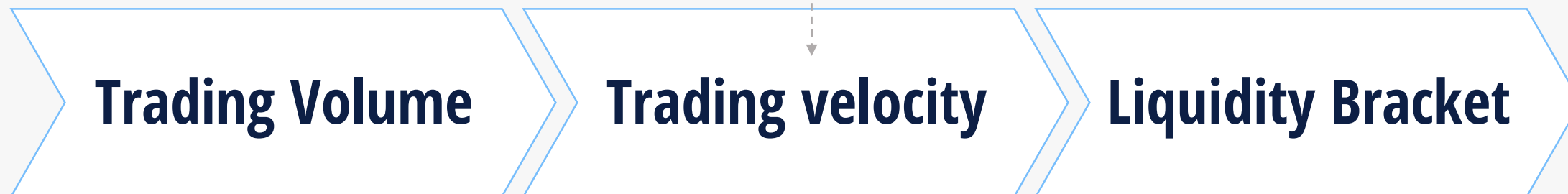
Liquidity bracket

Weight cap factor

Price

# Parameters for Determining the Quarterly Liquidity Bracket

**Trading velocity** = trading volume of units **on TASE** divided by the index adjusted number of shares on the same day



1. Calculation of the **daily trading volume** every day in the past 6 months for all shares traded on TASE (excluding shares under suspension or on the maintenance list)
2. Calculation of a **median daily trading volume** for all relevant shares in the aforesaid period
3. Classification of shares into the appropriate **median daily trading volume group**
4. Calculation of the **trading velocity** every day in the past 6 months for all shares traded on TASE (excluding shares under suspension or on the maintenance list)
5. Calculation of the **median trading velocity** in the aforesaid period
6. Classification of shares into the appropriate **median trading velocity group**
7. The liquidity bracket will be the ratio of the group, determined as the greater of the **median trading volume** and the **median trading velocity**

# Calculation of the Liquidity Brackets in the Indices

On the parameter rebalancing date – the liquidity bracket of a share will be updated by a maximum of **one bracket**.

The H liquidity bracket **in the first 90 days** of the share's inclusion in an index

**Fixed** every six months on the record date of the semi annual update

**Calculated** every quarter based on six-months' data

On every rebalancing date, the liquidity ratio of each share will be determined for calculating its weight in the indices until the next rebalance (in the following quarter)

The **liquidity ratio for calculating the weight** of a share will be determined based on the assignment of the share to the group with the **highest** liquidity ratio of (T) to (V).

Group	Median trading velocity (T)	Median daily trading volume (V)	Trading velocity group (T)/ daily trading volume group (V)	Liquidity ratio
A	0-10%	0-10%	$V_{10\%}$ or $T_{10\%}$	1
B	10-20%	10-20%	$V_{20\%}$ or $T_{20\%}$	0.8
C	20-25%	20-25%	$V_{25\%}$ or $T_{25\%}$	0.6
D	25-35%	25-35%	$V_{35\%}$ or $T_{35\%}$	0.45
E	35-45%	35-45%	$V_{45\%}$ or $T_{45\%}$	0.35
F	45-60%	45-60%	$V_{60\%}$ or $T_{60\%}$	0.25
G	60-80%	60-80%	$V_{80\%}$ or $T_{80\%}$	0.2
H	80-100%	80-100%	$V_{100\%}$ or $T_{100\%}$	0.1

# Sample Calculation of Liquidity Ratio

Liquidity group	Range	Bottom threshold	Share rating	Median trading velocity group- T	Median daily trading volume group – V	Liquidity ratio
A	0-10%	10%	55	142	4,152,193	1
B	10-20%	20%	111	96	1,356,751	0.8
C	20-25%	25%	138	80	657,571	0.6
D	25-35%	35%	194	55	199,270	0.45
E	35-45%	45%	249	36	89,218	0.35
F	45-60%	60%	333	17	32,488	0.25
G	60-80%	80%	444	5	7,055	0.2
H	80-100%	100%	555	-	-	0.1

# Sample Calculation of Liquidity Ratio

ISIN	Security name	Trading velocity	Group	Average daily trading volume	Group	Benchmark group	Liquidity ratio
604611	Leumi	180	A	91,212,983	A	A	1
746016	Strauss	66	D	6,650,974	A	A	1
1090315	Dimri	66	D	3,144,074	B	B	0.8
1085208	Compugen	121	B	481,434	D	B	0.8
1166917	Supergas	10	G	116,173	E	E	0.35
1103571	Schnapp	13	G	33,431	F	F	0.25
1179993	Rav Bariach	3	H	10,161	G	G	0.2

# The Indices' Stability is of high Priority

## Checks and balances have been installed throughout the methodology

- A quarterly rebalance will replace the monthly rebalance
- The liquidity calculations are based on the median in a six-month period. Limited impact of irregular trading days on the liquidity bracket.
- Fast track – only for a company that is ranked among the 100 largest-cap shares and only twice a year (on quarterly rebalance)
- The liquidity bracket may only be changed by one bracket every rebalancing.
- The free-float rate brackets have been canceled to eliminate the abuse of the mechanism
- A new share in the indices starts out at the lowest bracket and moves up one bracket every quarter up to the appropriate bracket.
- Change in the free-float rate is limited to a maximum of 5% per rebalance (quarterly)

# Gradual Inclusion of Shares to Indices that are considered Highly Investable Indices

➤ The weight cap will be increased by 1% each quarter until the share's weight cap matches the full weight cap of the index

➤ The weight cap of a share not included in TA-125 that joins an highly investable index will be 1%

## Highly Investable indices (aprx. NIS 200 million)

TA-SME60

TA-90

TA-125

TA-35

TA-Growth

TA-Technology

TA Sector-Balance

Tel-Div

TA-Finance

TA-  
Investment  
Properties  
in Israel

TA-  
Insurance

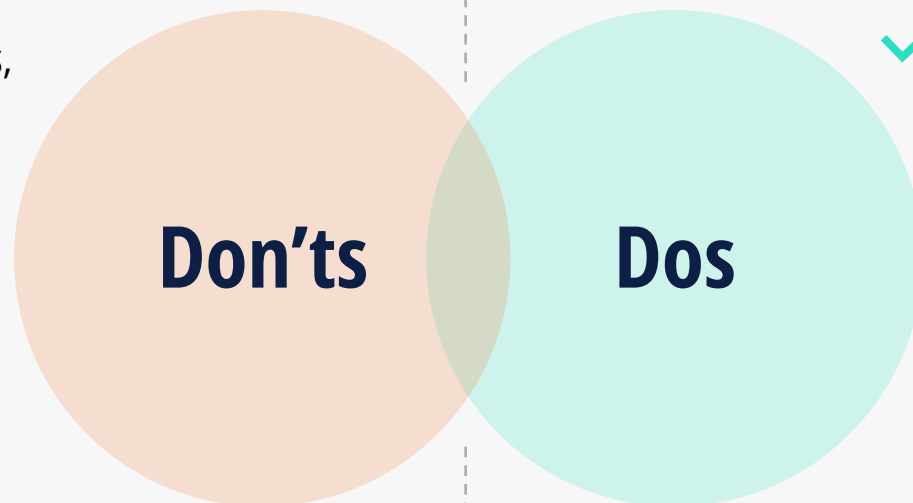
TA-  
Construction

TA-  
RealEstate



# Tools to increase Liquidity

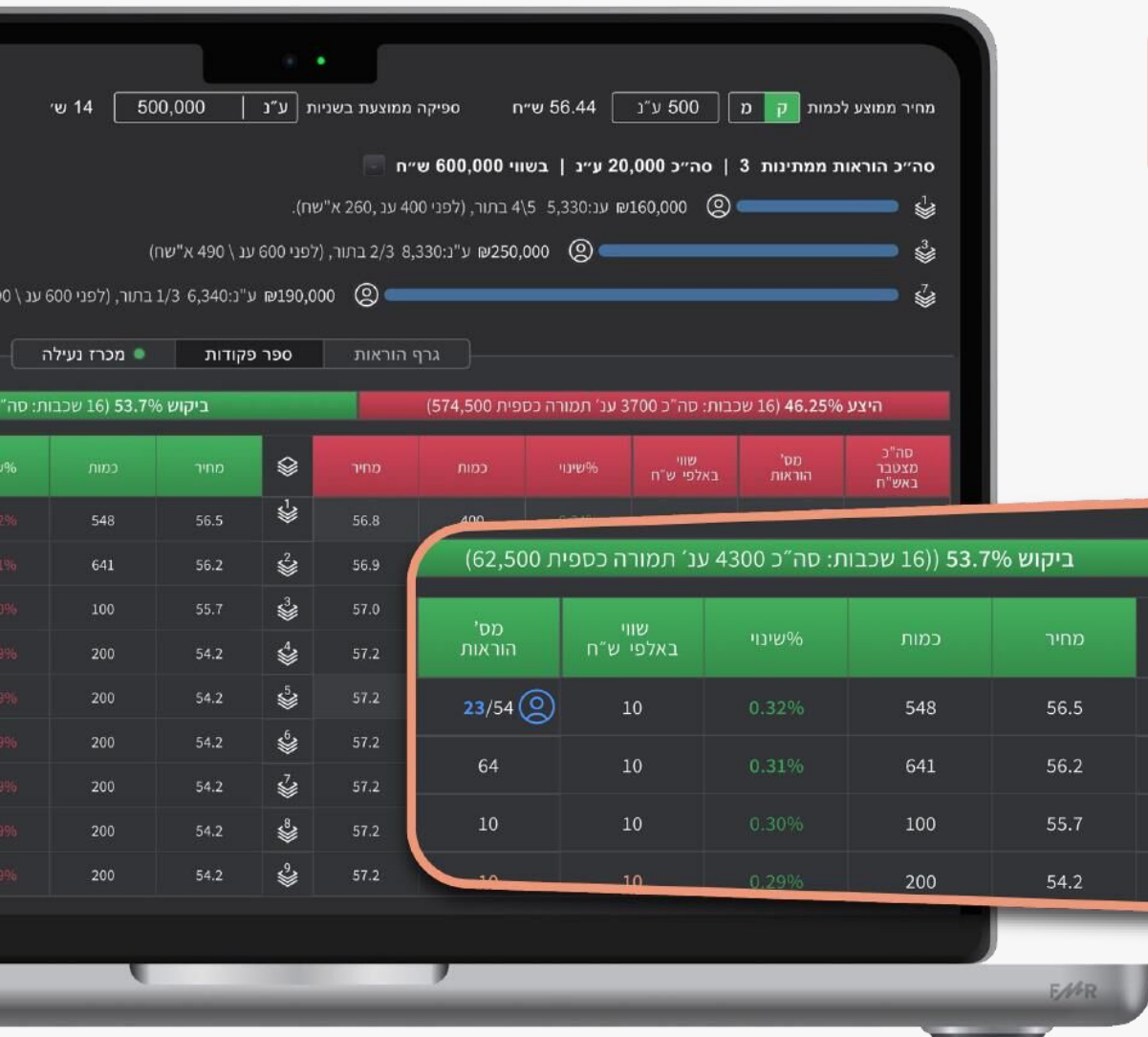
- ✗ **Avoid distribution to “Ingenuine Public”**  
Blocked investors, holders of 4.9%, long-term institutional investors etc.
- ✗ Distribution to non-floating parties does not increase the traded quantity in terms of units, but does increase the denominator of the trading velocity
- ✗ OTC transactions are not taken into account in determining the trading velocity and the median liquidity



- ✓ Appointment of an **effective market maker** that meets the criteria for significant market making (assistance will be offered by the Trading Department).
- ✓ **Distribution of shares** exclusively to **investors with high trading velocity**, such as mutual funds, portfolios management firms, retail etc.
- ✓ **Education and content** – content presentations for analytics departments at banks and investment houses, capital market media bodies and the full spectrum of investors.
- ✓ **Appointment of IR manager** (if not already appointed)
- ✓ **Reaching out to foreign investors** – analyses in English, ESG report, publication Annual reports in English and on fixed dates and setting up meetings with foreign investors

# Tools for Examining the Liquidity of the Company (MBO)

Expansion of the order book to fully present all trading layers in real time

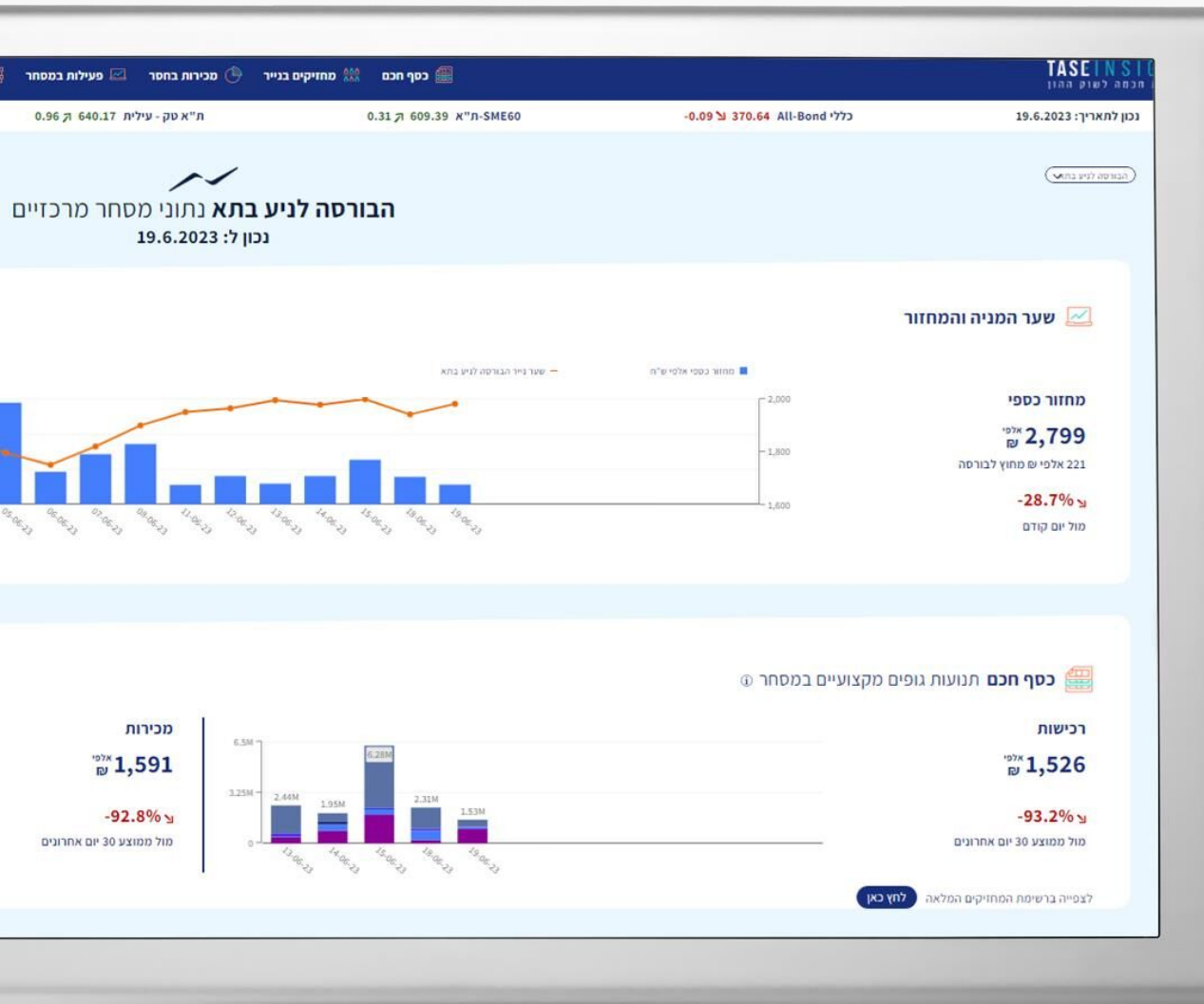


- Details of all orders in the layer
- Presentation of all layers in all prices (compared to 5 currently)
- Presentation of my order in the schedule of orders
- Liquidity in the book is not limited to the top layers



# TASE Insight

One-Stop-Shop for all local capital market information and analyses



An IT system that supports the tracking of prices, trading volumes and market cap for all of the securities traded on TASE

- **Monitoring foreign and local holders that are subject to reporting requirements**
- **Smart money activity analyses** – The system supports the tracking of developments in trading volumes and transactions in securities, by type of trader
- **Comparative analysis** of the performance of the company's securities against the changes in the leading indices, competitors and sectors
- Tracking short-sale **balances data**

# Thank you!

## TASE Indices Team

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