Israel Securities Authority

2010 Annual Report
## Table of Contents

I  Functions of the ISA .............................................. 1  
II The ISA and its Employees ...................................... 2  
III ISA Departments ..................................................... 4  
IV Corporate Finance Department ................................. 7  
   A. General .............................................................. 7  
   B. Special events and projects in 2010 ......................... 7  
      1. Annual Conference - Corporate Finance Department ..... 7  
      2. The Reporting Improvement Project ....................... 8  
      3. iSOX .............................................................. 11  
      4. Supervision over auditors (PCAOB) ...................... 14  
      5. Senior officer compensation ............................... 15  
      6. Corporate governance – Amendments 12 and 13 to the Companies Law 16  
      7. Bonds .......................................................... 17  
   C. Ongoing regulation ............................................... 17  
      1. Public reporting – data and highlights ................... 17  
         (a) Prospectuses and capital raising ...................... 17  
         (b) Immediate reports ....................................... 22  
         (c) Financial reporting and valuations ............ 25  
         (d) Transactions with a controlling shareholder .... 26  
         (e) Private offerings ....................................... 28  
         (f) Purchase offers ......................................... 29  
         (g) Bond settlement agreements and bond trustees 30  
      2. Reports to the ISA and requests for exemptions/extensions 31  
         (a) Termination of reporting requirements ............ 31  
         (b) Exemption applications ............................... 31  
         (c) Extension applications ............................... 32  
      4. Staff position papers ........................................ 35  
      5. Audits and outsourcing in the Corporate Finance Department 40  

*Cont.*
6. Underwriter Registry 40
7. Dual listing 41
8. XBRL 41
9. Financial sanctions 42

**V Investment Department** 48

A. Mutual funds 48
   1. General 48
   2. Permits to hold means of control in fund managers and licensing of fund managers and trustees 48
   3. Prospectuses 48
   4. Reports 48
   5. Fund manager participation in general meetings 51
   6. Onsite audits of mutual fund managers 52
   7. Supervision of mutual fund trustees 53
   8. Regulation activities 53
   9. Enforcement measures concerning fund managers 56

B. ILNs 59
   1. General 59
   2. Prospectuses 60
   3. Trustees 61
   4. Reports 61
   5. Enhancement of ongoing disclosure and development of audit mechanisms 62
   6. Audits of ILN managers 63
   7. Regulation activities 63

C. Own account trading floors 65
   1. General 65
   2. Regulation activities 65

D. Investment advisors, investment marketing agents and investment portfolio managers 66
   1. General 66

Cont.
2. Licensing 68
3. Supervision 72
4. Regulation activities 77
5. Enforcement activities concerning license holders 79

VI Department of Supervision over the Secondary Market 85
The Department’s purview 85

VII Legal Counsel 88
1. Primary and secondary legislation published in the reporting year 89
2. Proposed legislation and secondary legislation 95
3. Directives in accordance with Section 36A of the Securities Law 113
4. Judicial proceedings involving the ISA 116

VIII Criminal Enforcement 124
1. Criminal indictments 124
2. Criminal cases pending in court 136
3. Criminal verdicts in trial court 137
4. Verdicts in criminal appeals 141

IX Investigations and Intelligence Department 143

X Department of Research, Development and Economic and Strategic Counseling 146
1. Strategic counseling 146
2. Economic counseling 146
3. Remuneration structure of senior officers in publically traded companies 146
4. Representation of women in boards of directors 147
5. Analysis of the oil and natural gas exploration industry in 2008-2010 147
6. Cooperation with the Milken Institute and the Koret Foundation 147
7. Supervision over the secondary market and Stock Exchange 148
8. Research cooperation between the ISA and academic institutions 148

XI Class Action Lawsuits 150
1. Financing of class action lawsuits 150
2. Class action lawsuits pending decision 150
3. Class action lawsuits receiving financing from the ISA and completed during the year 150

Cont.
4. Pending class action lawsuits receiving financing from the ISA

XII Department of International Affairs
1. General
2. Bi-lateral recognition
3. Participation in international forums
4. Study delegations
5. Cooperation on enforcement and exchange of information
6. Regulation of custodians

XIII Information Systems Department
1. Electronic Reporting - MAGNA
2. Document archiving and automated office
3. Operational system
4. The ISA website
5. Central Information System (CIS) – AMIGO
6. Computing for the Investigations and Intelligence Department
7. Forms and payments system
8. BI irregular trading system
9. Knowledge management
10. Human resources system
11. Infrastructure - servers, communications, and information security

XIV Public Affairs
1. Inquiries from the public
3. Contact details

Appendixes
A. The ISA Budget for 2010
B. The ISA’s Approved Budget for 2011

Cont.
Tables

Table 1  No. of applications for permits to publish prospectuses vs. permits granted in 2006-2010 20
Table 2  Capital raised and allocations through shares, convertible securities and bonds, 2010-2009 21
Table 3  Shelf offering reports 22
Table 4  Annual reports - delinquent filing 24
Table 5  Interim financial statements - delinquent Filing 24
Table 6  No. of transactions with controlling shareholders 28
Table 7  Private offerings 29
Table 8  Purchase offers 30
Table 9  Companies no longer required to report 31
Table 10  Exemption applications 32
Table 11  Extension applications, 2008-2010 32
Table 12  Requests for pre-ruling 36
Table 13  Underwriter Registry 40
Table 14  Financial sanctions imposed in 2009-2010 42
Table 15  Fines imposed by financial sanction committees in 2010 43
Table 16  No. of mutual funds and value of assets under management in 2006-2010 48
Table 17  Participation rate of mutual fund managers in general meetings in which they are required by law to participate and vote 51
Table 18  Violations for which fines were imposed in 2010, including sections violated and fine amounts 57
Table 19  Licenses granted to individuals - portfolio managers, investment advisors and investment marketing agents 67
Table 20  No. of applicants added each year 67
Table 21  Exam success rates in 2010 69
Table 22  Violations for which fines were imposed in 2010 and fine amounts 80
Table 23  Violations for which financial sanctions were imposed in 2010 and fine amounts 83

Cont.
Table 24  Cases forwarded to the Department of Investigations and Intelligence in the past five years, by type of offenses

Table 25  Cases where it was decided whether there was sufficient or insufficient prima facie evidence that an offense had been committed in the past five years

Table 26  Investigation cases forwarded to the District Attorney's Office in the past five years, by main type of offense

Table 27  Summary of 2010 Data for the Information Systems Department

Charts

Chart 1  No. of Trust Funds, 2006-2010
Chart 2  Value of trust fund assets, 2006-2010
Chart 3  No. of ILN series
Chart 4  Value of public holdings of ILNs
Chart 5  No. of reports filed by ILN managers
Chart 6  Total value of assets under management by portfolio management companies, 2006-2010
Chart 7  Licensing examinees (by no. of exam units), 2006-2010
Chart 8  Processing of exemption applications, 2006-2010
Chart 9  Processing of internship applications, 2006-2010
April 15, 2011

To
Mr. Yuval Steinitz
Minister of Finance
Ministry of Finance

To
Mr. Moshe Gafni, MK
Chairman of the Knesset Finance Committee
The Knesset

Dear Sirs,

Re: Report on the Activities of the Israel Securities Authority

In accordance with Section 14 of the Securities Law of 1968, I respectfully submit this report on the activities of the Israel Securities Authority (hereinafter – the ISA) for 2010.

A. Enforcement Mechanisms in the Capital Market

The ISA's efforts in 2010 focused mainly on reforming enforcement mechanisms in the capital market: This year, the ISA completed two key initiatives, which significantly enhance the capital market enforcement structure.

The first initiative includes the establishment of a court for economic affairs. On December 15, 2010, a department was set up in the Tel Aviv District Court, comprised of three tenured judges who will specialize in securities and companies law. Judges in this department will hear criminal cases pertaining to violations of securities legislation, as well as civil cases pertaining to securities and companies law. The Department also hears administrative appeals on decisions handed down by the ISA, the Tel Aviv Stock Exchange (hereinafter – the Stock Exchange), and the Registrar of Companies. The establishment and operation of the Court for Economic Affairs, as aforesaid, is aimed at streamlining and improving criminal enforcement in companies and securities law cases; reducing procedural times; and laying the foundations for consistent and professional rulings in this field. In addition, the Court for Economic Affairs will minimize legal uncertainty in the capital market and promote proper conduct among market players. The initiative is also expected to strengthen and promote private enforcement of companies and securities law through class actions and derivative suits. The ISA views the establishment of the Court for Economic Affairs as a significant milestone in the development and sophistication of the Israeli capital market. The ISA expects that this initiative will bolster the legal mechanisms protecting investors in the capital market; increase the confidence of both domestic and foreign investors; and consequently, lead to the capital market's growth and prosperity in the long term.

The second initiative successfully completed during the year was the final enactment of the Streamlining of ISA Enforcement Procedures Law. The formulation of this Law, which went on for several years, was finally completed immediately after the end of the reporting year, and the law is expected to come into effect in 2011. The Law lays down the administrative groundwork for handling violations of laws with whose enforcement the ISA is entrusted (the Securities Law, the Joint Investments Trust Law, and the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Law). Until now, these laws were enforced almost exclusively through the filing of criminal indictments. Under the new Law, the ISA will establish an
administrative enforcement committee, which will be authorized to handle administrative violations of the above laws. The Committee will have the power to impose administrative sanctions, including significant fines and limitations on business. The Administrative Enforcement Committee's decisions will be appealable to the Court for Economic Affairs. This establishment of an administrative enforcement system is expected to improve and diversify the enforcement options available to the ISA. It is further expected to contribute towards the improvement of proper conduct by capital market players, to the general benefit of all investors.

In addition to these key initiatives, the following highlights the ISA's activities in the past year (full details are available in the report itself):

B. Ongoing Activities

Highlights of ongoing activities in the capital market in the past year -

**Corporate finance:** In 2010, the business sector raised NIS 8.7 billion in shares and convertible securities, of which NIS 8.5 billion were raised locally (as compared with 2009, where NIS 2.4 billion were raised). In addition, the business sector raised NIS 38 billion through the issue of bonds, as compared with NIS 29 billion in the previous year. Furthermore, the business sector raised NIS 950 million through the exercise of warrants, as compared with NIS 970 million in the previous year. In all, in 2010 the business sector raised a total of NIS 47.8 billion, of which NIS 47.7 billion were raised locally, as compared with NIS 32.7 billion raised in 2009 (all locally). For comparison, in 2010 the Government raised a total of NIS 56 billion (gross) through marketable bonds, as compared with NIS 69 billion raised in the previous year.

**Mutual funds:** The number of active mutual funds reached 1,247 in 2010, with NIS 156.6 billion in assets under management, as compared with 1,202 funds active in 2009, with NIS 133.2 billion in assets under management. During the year, the ISA processed 11 applications for permits to hold the means of control in a fund manager, as well as one fund manager permit application. During the year, 13 applications to hold the means of control in a fund manager were received, as well as eight applications to act as fund manager.

**ILNs:** In 2010, there were seven groups of firms issuing Index Linked Notes (ILNs) on the market. These groups operated through 32 different ILN firms. During the year, 85 new series were issued, and 68 series matured (of which 49 were covered warrant series). At year's end, the number of ILN series stood at 437. Public holdings in ILNs at the end of the reporting year were valued at NIS 57.7 billion, as compared with NIS 49.2 billion at the end of 2009 (an increase of 17%, or NIS 8.5 billion). This increase was due in part to positive accruals (NIS 4.4 billion), and in part to a revaluation of the underlying assets.

**Investment advisors and portfolio managers:** In 2010, the ISA conducted 9,137 examinations for individuals seeking licensing as investment advisors or portfolio managers, as compared with 7,323 exams in 2009. As of the end of the reporting year, there were 5,605 individual license holders, of which 1,041 were portfolio managers, 3,960 investment advisors, and 604 investment marketers. Furthermore, there were 203 licensed firms, of which 164 were investment portfolio management firms, 12 investment advice firms, and 27 investment marketing firms. 20,940 individuals were in various
stages of the licensing process. Of these - 4,728 were seeking licenses for providing pension advice services.

C. Improved Capital Market Regulation

In 2010, the ISA promoted several key projects aimed at improving regulation on the capital market -

- **Improved financial reporting** - This project is aimed at simplifying reporting on company operations in prospectuses and annual and quarterly financial statements. The project further aims to improve the relevance of these reports and make them clearer and more accessible to investors. This project was initiated following recent developments in disclosure requirements, including the application of International Financial Reporting Standards (IFRS) to financial reporting in Israel. The project also coincides with similar initiatives implemented by securities authorities abroad. Inter alia, the project examines several aspects of financial reporting, including the need for adaptations in the structure of the reports (e.g. - by creating a corporate governance report and adapting the disclosure requirements for the board of directors' report); cancellation of redundant disclosure requirements; prescribing industry-specific disclosure requirements (e.g. - income-generating real estate, investment real estate, holding companies, and oil partnerships); grouping similar disclosure requirements under separate chapters (such as financing and liquidity and risks); and other aspects as well. All these are aimed at improving reporting relevance and making reports a useful tool in the investors' decision making process.

- **Regulation of ILNs** - On November 16, 2010, a draft amendment was published for the Joint Investments Trust Law. This bill serves to regulate the ILN and Index Linked Funds (ILF) market. It coincides with the new regulatory model for ILNs. This model, which was published in full in early 2011, targets various risks related to these financial instruments, while taking into account the tremendous increase in both the public's holdings in ILNs and the popularity of these vehicles. The provisions of the new regulatory model will be enacted into regulations. The new model institutes a conservative and binding framework for ILN managers, so as to minimize risk and mandate their ongoing management. On the other hand, the model will not detract from the ability of existing issuers operating in the ILN market to continue their operations; nor will it detract from their competitiveness as compared with alternative products. The new regulatory model follows on a legislative initiative aimed at transforming the legal status of ILNs to a status similar to that of mutual funds. This entails, *inter alia*, the transfer of ownership of underlying assets to investors; the holding of such assets in trust on behalf of investors; strengthening the trustee's status; and requiring ILN issuers to adhere to corporate governance principles currently applied to mutual funds.

- **Opening the market to distribution of foreign mutual funds** - On June 14, 2010, the Knesset approved the Joint Investments Trust Bill (Amendment 15) of 2010, on its first reading. The Bill prescribes, *inter alia*, the manner in which units in foreign mutual funds may be offered to the public in Israel.

- **Regulation of rating agencies** - On June 17, 2010, an exposure draft for a bill was published pertaining to the preparation of a mechanism for regulating rating agencies, and a requirement that such companies be subject to ISA supervision. The bill is intended to protect investors and assure uniformity, reliability and quality in the rating
process. The bill proposes that regulatory principles be similar to those taking shape in Europe and in the US. The bill implements one of the important conclusions drawn from the 2008 global financial crisis.

- **Regulation of own account trading floors** – This year, for the first time, the ISA took steps towards regulating a previously unregulated market, which exposes public investors to risks. Following approval of the law regulating these activities, and its publication in the Official Gazette on June 15, 2010, towards the end of the year, the ISA posted on its website an exposure draft of the Securities Regulations (Own Account Trading Floors) of 2010. The regulations provide, *inter alia*, for licensing procedures; permitted level of leverage; reference to conflicts of interest between companies and their clients; the manner in which client funds are to be handled; reporting requirements; rules for company engagements with clients; documentation and document retention; matching activity with client preferences; advertising and marketing methods and reporting to the public.

- **Regulation of the custody market** - An inter-ministerial committee, led by the ISA, examined the custody service market in Israel. The Committee set out to examine the need for improving regulation of this market, and submitted its interim report to the Minister of Finance in 2010. The Committee, comprised of representatives from all regulatory authorities, recommended a series of measures aimed at regulating and supervising the custody service market. These measures are intended to protect investors in the capital market in Israel and guarantee that this market remains attractive to foreign investors. The Committee recommended, *inter alia*, a series of requirements designed to enable continuous monitoring of assets and the registration of ownership interests therein, so as to allow clients to reasonably examine and exercise their ownership of assets. Implementation of the Committee's recommendations will lead to this significant market being regulated for the first time in a uniform and coordinated fashion by all financial regulators in Israel.

### D. Enforcement

In the past year, the ISA began to implement enforcement measures in all areas under its supervision. These measures aim to guarantee public confidence in the capital market, and include the following:

**Corporations** - During the reporting year, the ISA conducted audits of reporting companies, both through outsourced service providers and through project-specific in-house teams. These audits covered such issues as corporate governance, examination of real estate asset valuations, and examination of material sections in financial statements.

The ISA also exercised its power by law to impose financial sanctions for certain violations of the Securities Law. During 2010, financial sanctions were imposed on 23 companies and two underwriters.

As part of its ongoing activities and as part of its examination of controlling shareholder transactions, arrangements, mergers and acquisitions, financial statements, prospectuses and immediate reports, in many cases the ISA ordered the amendment of reports and re-statement of financial statements. The ISA also published opinions concerning the propriety of principal shareholder transaction approval processes and approved debt settlement agreements and proposed acquisitions. Following violations related to
controlling shareholder transactions, several companies chose not to carry out the
transactions, while others opted to re-submit the transactions for approval. In other cases,
following disclosure violations, compliance officers were appointed in the offending
companies, and an internal enforcement program was instituted. In several cases,
companies were denied the option of receiving a permit for shelf prospectuses in light of
their violations. In still other cases, financial sanctions were imposed on the violating
companies.

**Investments** - During the reporting year, the ISA conducted audits of mutual fund
managers, issuers of ILNs, portfolio management companies, and investment advisors
employed by banking corporations. Six brief audits were conducted in mutual fund
managers. These audits reviewed the following matters: internal controls, investment
management and control, revaluation of securities, etc. A cross-sectional audit of all fund
managers was completed, which covered investment management and use of distribution
accounts. An industry-wide examination of all fund managers and fund trustees was
carried out, examining disparities in manager and trustee fees. Furthermore, fund
managers were required to report to the ISA on the implementation of ISA audit
recommendations from 2009. Three audits were conducted for ILN managers, and
covered a range of issues, including risk management and corporate governance. Seven
cross-sectional audits covering various issues were conducted for licensed companies, as
well as 36 targeted audits examining specific issues related to the Regulation of Business
Law for licensed companies and to advisory processes in banking corporations. During the
reporting year, the ISA began an industry-wide audit of all fund managers, ILN issuers,
and licensed companies, examining investment manager and officer remuneration.

Following these activities and additional ongoing supervisory activities, civil fines were
imposed on 12 fund managers, 18 portfolio management companies, and three investment
advice companies for violating various provisions of law. Financial sanctions were also
imposed on four portfolio management companies, where violations of the Money
Laundering Prohibition Law were found. Enforcement also included the dismissal of a
fund manager officer; transfer of fund management to another manager; suspending a
licensee's license after his being indicted for severe violations of the Securities Law; and
revoking a company's portfolio management license as the license was given following
false representations made to the ISA and following the violation of one of the license
terms.

**Criminal enforcement** - In 2010, the ISA submitted to the Securities Department of the
Tel Aviv District Attorney's Office (Taxation and Economics) 25 cases after completing
its investigations. In addition, 13 international judicial inquiries were conducted. At the
end of the reporting year, the Investigations Department had 11 pending cases, where
investigation is still ongoing. In addition, seven international judicial inquiries are
likewise pending.

Cases handled by the Investigations Department pertained to alleged violations of
misleading details (in prospectuses, financial statements, or immediate reports); securities
fraud; use of inside information; and offenses under the Penal Code: bribery, theft and
obtaining by fraud.

In the past year, the District Attorney's Office Securities Department filed 12 indictments
based on investigations submitted by the ISA. Four of these investigations concerned
inside information usage charges, while the rest concerned charges of securities fraud;
obtaining by fraud under aggravating circumstances; theft by agent; and various reporting violations. This year, eight verdicts were issued by courts of first instance, and two by courts of criminal appeals, both of which were issued by the Supreme Court.

This year, the ISA continued to implement its policy to increase deterrence by streamlining violation investigation processes. This policy calls for shorter response times from the time a violation is uncovered and until the ISA takes action, in both civil and criminal investigations.

E. The Global Context

As the global economic crisis abated, and as it became clear that the ISA met most of the challenges posed by this crisis, the ISA once more turned its focus on removing the barriers between financial markets in developed countries and the capital market in Israel. Among other initiatives, the ISA promoted European recognition of Israeli prospectuses. As a result, in February 2011, the European Securities and Markets Authority (ESMA) announced that issuing companies listed in Israel will henceforth be able to list their shares on any securities exchange in the European Union, based on their Israeli prospectuses. This means that, following this announcement, regulators throughout the European Union will recognize prospectuses prepared in accordance with the Israeli Securities Law. The announcement is of historic significance: This is the first time that a European securities authority recognizes prospectuses approved in a non-EU country. Moreover, Israeli companies will be able to list their securities for trade on one exchange in the European Union, after which the securities will also be traded on additional exchanges, in accordance with European legislation.

In order to facilitate listing for trading in the European Union and assist Israeli companies in handling the practical and formal requirements of the European Union markets, the ISA intends to initiate a process which will lead to the signing of bi-lateral agreements with various countries in the European Union.

In addition, in 2010 the ISA conducted advanced stages of negotiations for signing a bi-lateral cooperation agreement with China, which was finally signed in March 2011. The agreement states that the two authorities will mutually assist each other in the administrative enforcement of both countries' securities laws. The agreement also provides for limited assistance for civil or criminal enforcement, subject to prior written approval from the assisting authority. The agreement opens, for the first time, the Israeli and Chinese capital markets to mutual foreign investment by institutional entities.

On a personal note, I would like to add that this annual report is the last one to be submitted during my term as Chairman of the Israel Securities Authority, which ends on April 30, 2011. I am ending my tenure with a profound feeling of satisfaction, after seeing the ISA achieve many of its goals set during my term in office. I have no doubt that these achievements would not have been possible without cooperation by all those parties assisting and contributing to the ISA's work, including the Ministry of Finance, the Ministry of Justice, the Bank of Israel, the Knesset Finance Committee and its chairperson, as well as the Knesset Constitution, Law and Justice Committee and its chairperson. In particular, I wish to acknowledge the dedicated and professional staff of the ISA itself, who continue to diligently and professionally strive towards the ISA's ultimate goal - protecting investors in the capital market. I am proud to have been given the opportunity to lead this elite team, and am confident that, through their efforts, the
Israel Securities Authority will continue to provide the Israeli public with the same level of service in years to come.

Respectfully yours,

Zohar Goshen
Chairman, Israel Securities Authority
I Functions of the ISA

The Israel Securities Authority (ISA) was established under the Securities Law of 1968 (hereinafter – the Securities Law), and its function, as stated in the Law, is to protect the interests of the investing public. Within the framework of its mandate, the ISA handles, *inter alia*, the following issues:

1. Granting permits to publish prospectuses in which companies offer securities to the public, and prospectuses in which mutual funds offer units to the public;

2. Reviewing the following reports filed by reporting entities:
   a. Immediate current reports, quarterly and annual financial statements;
   b. Reports regarding transactions between companies and controlling shareholders therein;
   c. Reports on private offerings by companies;
   d. Purchase offers specifications;
   e. Mutual funds’ current reports.

3. Regulating and supervising the activities of the mutual fund sector;

4. Licensing portfolio managers, investment advisors and investment marketers, regulating their activity and supervising them;

5. Ensuring the compliance of portfolio managers and non-banking members of the Tel Aviv Stock Exchange (hereinafter – the Stock Exchange) with the Prohibition of Money Laundering Law of 2000.

6. Supervising the proper and fair activity of the Stock Exchange;

7. Conducting investigations regarding violations under the Securities Law, the Joint Investment Trust Law of 1994 (hereinafter – the Joint Investment Law), the Regulation of Investment Advice and Investment Portfolio Management Law of 1995 (hereinafter – the Advice Law) and violations of other laws where related to violations of the aforesaid laws.

8. The ISA collaborates with the Institute of Certified Public Accountants in Israel in financing and operating the Israel Accounting Standards Board.

In accordance with the Securities Law, the Chairman of the ISA and its members are appointed by the Minister of Finance. Some of the members are appointed from among the public while others are civil servants; one of them is an employee of the Bank of Israel. The ISA employs accountants, lawyers, economists and administrative employees.
II The ISA and its Employees

As of the end of December 2010, the members of the ISA Plenum were as follows:

Prof. Zohar Goshen, Chairman;
Prof. Zvi Eckstein;
Mr. Haj Ihie Hani, CPA;
Dr. Shai Pilpel;
Dr. Lea Paserman-Josefov;
Dr. Eti Einhorn;
Dr. Keren Bar Hava;
Mr. Eldar Duchan.

The ISA Plenum usually meets once a month. The ISA Plenum also deals, through the ISA’s committees, with granting applications for permission to publish prospectuses; granting exemptions and extensions; stock exchange issues; issues relating to the ISA’s finances and budget; the independence of auditors in companies subject to the Securities Law; issues relating to the licensing of investment advisors, investment marketers, and investment portfolio managers; issues relating to the imposition of civil fines on mutual fund managers, as well as other issues, as needed.

In 2010, the ISA Plenum held ten meetings; the Committee for Disclosure and Reporting Issues held 63 meetings; the Committee for Secondary Market Issues held five meetings; the committee authorized to impose fines and financial sanctions held five meetings regarding class actions, two meetings regarding civil fines under the Regulation of Investment Advice and Investment Portfolio Management Law of 1995, and two meetings regarding the imposition of civil fines under Section 114 of the Joint Investment Trust Law (hereinafter – the Joint Investment Law); the Committee for Supervision and Regulation held seven meetings regarding granting of licenses and permits under the Joint Investment Trust Law and the Investment Advice Law; the Finance Committee held two meetings; the Audit Committee held two meetings; the Tender Committee held 19 meetings.

As of the end of December 2010, the ISA’s senior employees were as follows:

Mr. Shimshon Albek, Adv. - Chief Legal Counsel
Ms. Yael Almog, Adv. - Senior Advisor to the Chairman and Head of the Department of International Affairs
Mr. Nir Bar-On, Adv. - Head of the Investigations and Intelligence Department
Dr. Ilana Modai;¹ - Head of Administrative Enforcement
Mr. Oded Shpirer, Adv.² - Secretary General

¹ On November 1st, 2010, Dr. Ilana Modai was appointed Head of Administrative Enforcement, in lieu of Dr. Zvi Gabai, who served as Head of Enforcement.
As of the end of December, 2010, 214 positions were filled, as follows:

<table>
<thead>
<tr>
<th>Department</th>
<th>Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman’s Bureau</td>
<td>4.5</td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>10</td>
</tr>
<tr>
<td>Department of International Affairs</td>
<td>3.5</td>
</tr>
<tr>
<td>Corporate Finance Department</td>
<td>40.5</td>
</tr>
<tr>
<td>Investment Department</td>
<td>39.75</td>
</tr>
<tr>
<td>Securities Department at the Tel Aviv Office</td>
<td>20</td>
</tr>
<tr>
<td>Investigations and Intelligence Department</td>
<td>35.75</td>
</tr>
<tr>
<td>Research, Development and Economic and Strategic</td>
<td>5</td>
</tr>
<tr>
<td>Counseling Department</td>
<td>6</td>
</tr>
<tr>
<td>Information Systems Department</td>
<td>7</td>
</tr>
<tr>
<td>Department of Supervision over the Secondary Market</td>
<td>18</td>
</tr>
<tr>
<td>Administration, Finance and Human Resources</td>
<td>9</td>
</tr>
<tr>
<td>Interns</td>
<td>15</td>
</tr>
<tr>
<td>Students</td>
<td></td>
</tr>
</tbody>
</table>

The number of approved positions as of the end of December 2010 stood at 217. The percentage of men employed by the ISA as of December 2010 stands at 51%, as compared with 49% women. The percentage of academics at the ISA is approximately 90% of employees, who are mostly lawyers, CPAs and/or economists.

The budget of the ISA is funded by annual fees paid by companies that are subject to the Securities Law and the Joint Investment Law; by fees paid for applications to receive permits to publish prospectuses and private offerings; by licensing fees paid by investment advisors and investment portfolio managers, and by fees paid by the Tel Aviv Stock Exchange. The budget is approved by the Minister of Finance and the Finance Committee of the Knesset.

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2 On October 3, 2010, Adv. Oded Shpirer was appointed Secretary General in lieu of the late Mr. Avi Danon, who died following a grave illness.

3 On February 1, 2010, Adv. Shirel Gutman-Amira was appointed Head of the Corporate Finance Department, in lieu of Dr. Moshe Barkat.

4 Approved positions include lawyers who are employed by the ISA for the purpose of assisting the District Attorney’s Office in carrying out its roles in matters relating to the Israel Securities Authority. For this purpose, the ISA funds 15 lawyers and five interns in various district attorney offices.
III ISA Departments

The Israel Securities Authority (ISA) was established under the Securities Law of 1968 (hereinafter – the Securities Law), and its function, as stated in the law, is to protect the interests of the investing public. For more information regarding the ISA’s various areas of responsibility, please visit our website: www.isa.gov.il.

ISA Departments

Corporate Finance Department: The staff of the Corporate Finance Department, which includes accountants and attorneys, is responsible for real time monitoring of current reports issued by reporting entities, including immediate reports, as well as interim and annual financial statements. This includes the review and examination of reports with an emphasis on level of disclosure; compliance with the provisions of the Law and Regulations; enforcement of GAAP; and examination of the legal, accounting, and economic aspects involved therein. The Department staff is in charge of handling complex, often interrelated, legal and accounting issues and with identifying market failures that require the ISA’s intervention. Special emphasis is placed, in cooperation with the Investigations and Intelligence Department, on preventive activity based on intelligence.

Investment Department: The Investment Department is in charge of the licensing, supervision, and regulation of various kinds of investment intermediaries, which include: mutual fund managers; mutual fund trustees; managers of Index Linked Notes (hereinafter - ILNs); ILN trustees; investment portfolio managers; investment advisors and investment marketers.

The Department’s headquarters include, inter alia, the Department’s legal counsel as well as five functional units, as follows:

1. Licensing Division
2. Supervision of Mutual Funds Division
3. Supervision of License Holders Division
4. Financial Instruments Division;
5. Audit Division.

Investigations and Intelligence Department: The Investigations and Intelligence Department is in charge of identifying and exposing criminal activity in the capital market, in order to prevent it, as far as possible, or to take enforcement action, mainly by initiating investigation procedures to examine suspicions for prima facie criminal offenses in the capital market.

The Department is authorized to conduct complex and intricate investigations both in Israel and abroad, which are concerned, inter alia, with securities fraud; the use of inside information; reports meant to mislead the investing public; controlling shareholder transactions; offenses of fraud and breach of trust in corporations; as well as money laundering offenses.

The Department includes staff with investigative background – mainly lawyers or accountants by profession.

Legal Counsel: Legal Counsel is charged with all legal facets of the ISA’s activity and is headed by the Chief Legal Counsel. The Department’s attorneys are teamed up with the ISA’s various departments, closely assisting in the ISA’s ongoing activities and drafting bills
and subsidiary legislation proposals. The Department’s attorneys review prospectuses and reports issued by companies and mutual funds, and handle various aspects of immediate reports in accordance with the Conflict of Interest Regulations, Private Offerings Regulations and Purchase Offers Regulations. Other ISA attorneys take part in supervising and regulating the activity of the Tel Aviv Stock Exchange (hereinafter – the Stock Exchange) as well as in supervising and regulating the activity of investment advisors and investment portfolio managers. The attorneys also take part in the advisory procedures that government authorities conduct with the ISA in areas where such a procedure is required by law. In addition, Legal Counsel handles all legal issues related to the ISA’s work, authority and general matters (such as contracts, tenders, etc.). It also provides litigation services, representing the ISA in court on various issues and assisting in civil proceedings handled by the State Attorney or other bodies where the ISA is a party.

**Department of Supervision over the Secondary Market:** The Department coordinates the ISA’s supervision and control over the proper and fair management of the Stock Exchange. The Department’s authority stems from the provisions of the Securities Law of 1968, focusing on the provisions of Chapter H of the Law, which deals with the ISA’s supervision powers regarding the setting of the Stock Exchange’s Rules & Regulations and its directives as well as its duty to supervise, as aforesaid, the Stock Exchange’s proper and fair management.

**Secretary General:** The Secretary General of the ISA is responsible for the Organization’s ongoing operations, for follow up on implementation of policies set forth by the Chairman in the ISA’s various areas of activity, as well as for integration and coordination between the various departments.

The Secretary General’s purviews include, *inter alia:* financials and accounting, including the ISA’s annual financial reporting; financial management; managing the fee collection system; managing the ISA’s tenders; drafting the annual budget and handling its approval process with the Ministry of Finance and the Knesset Finance Committee, as well as supervising the implementation thereof.

In addition, within the Secretary General’s purview are other organizational areas, including the Department of Human Resources.

**Research, Development and Economic and Strategic Counseling Department:** The Department’s role is to extend economic counseling to the Chairman of the ISA and to the Organization’s various departments.

The Department takes part, on a regular basis, in staff discussions and recommendations subjected to the approval of the Stock Exchange Committee and in various tasks of ISA work teams dealing with various issues, including proper trading on the Stock Exchange, the Stock Exchange Rules and Regulations, new financial instruments, the ISA budget, etc.

**Securities Department at the Tel Aviv District Attorney’s Office (Taxation and Economics):** The Securities Department, which forms part of the Tel Aviv District Attorney’s Office (Taxation and Economics), was established for the purpose of focusing resources and professional capabilities on the battle against money laundering and white collar criminal activity, and in order to establish sanctions and behavior norms in this field, under tax laws and other relevant legislation.

With the development of the capital market and the lack of adequate enforcement to protect the investing public, the purview of the Securities Department at the Tel Aviv District
Attorney's Office (Taxation and Economics) was extended, and it was decided that it alone would handle this area under the Securities Law of 1968 and other relevant laws, both directly and indirectly.

The Securities Department at the Tel Aviv District Attorney's Office specializes in handling large, complex and multi-document cases.
IV    Corporate Finance Department

A. GENERAL

As one of the executive arms of the Israel Securities Authority (hereinafter – the ISA), the Corporate Finance Department’s main role is to increase transparency in the capital market by civil regulation, in accordance with the Securities Law, thus fulfilling some of the ISA’s roles in protecting the investing public. This role includes many sub-goals and areas of responsibility, *inter alia*: Determining disclosure requirements and altering them according to the dynamic changes which characterize the capital market, so as to best serve users, best represent material and relevant information, and increase the use of reports as a vehicle for investment decisions; enforcing transparency in the capital market by examining the adequacy of disclosure in the various reports issued by companies; examining transaction reports (mergers, transactions with controlling shareholders, purchase offers, settlement agreements); examining the adequacy of accounting treatment in financial statements; examining offerings (prospectuses and private offerings) and approving prospectuses; conducting in-depth audits in companies (in accordance with Section 56f); examining the implementation of corporate governance provisions as they pertain to the company’s position and its disclosure requirements; interpreting existing legislation by issuing pre-rulings; issuing legal and staff accounting bulletins (SLBs and SABs), FAQs and clarifications; as well as enforcing reporting requirements by imposing financial sanctions when necessary.

The Department employs accountants, lawyers, and economists, the majority of whom serve as points of contact for reporting companies. All Department staff members have professional responsibilities - in an either legal or accounting capacity. Each reporting company is handled by a contact person as regards the reporting requirements prescribed under the Securities Law.

The Department’s roles and areas of responsibility are translated into an annual work plan, the purpose of which is to fulfill the abovementioned goals. It is based on the allocation of departmental resources according to the risk management model and priorities of the Department and the ISA.

B. SPECIAL EVENTS AND PROJECTS IN 2010

1. Annual Conference - Corporate Finance Department

The ISA attaches great significance to the transparency of its activities. As part of this approach, and in order to update the market as regards new directions and changes in its work, the Department conducted its second consecutive annual conference in December 2010, under the title Corporations Conference – Enhanced Transparency, Simplicity and Reliability. The following issues were discussed during the Conference:

Senior Department officials and guest lecturers gave presentations reviewing the challenges presented by the Israeli capital market, both legally and in terms of financial reporting, addressing several issues:

(a) Prospectuses and current reports, including the ISA’s key agenda issues; the Reporting Improvement Project and expected developments resulting thereof; anticipated changes in the format of expected cash flow statements; anticipated changes and regulation trends in the real estate and oil and natural gas sectors.
(b) **Corporate governance and gatekeepers**, including trends and emphases as regards the compensation of senior officers and Amendments 12 and 13 to the Companies Law; controlling shareholder transactions and the independence of audit committees; iSox towards 2010 annual statements; settlement arrangements with bondholders and companies experiencing difficulties.

(c) **Administrative enforcement.**

(d) **Financial reporting and valuations**, including updates on accounting standards in Israel and worldwide; insights following three years of IFRS implementation and a look ahead; accounting issues in financial reporting; dilemmas and trends as regards solo reports.

2. **The Reporting Improvement Project**

In 2010, the ISA launched the Reporting Improvement Project, with the aim of improving the reporting practices of reporting companies, so as to render reports more relevant and useful to the investing public for making investment decisions. The Project’s key points will be published in 2011. In addition, proposed amendments to the Securities Regulations, applying all principles of the Project, will be drafted, with the aim of applying all changes in disclosure provisions beginning with the 2011 financial statements.

**Background**

During the past few years, ISA staff members examined disclosures published by companies as part of their annual and quarterly reports; the Barnea Committee’s recommendations regarding the development of industry-specific disclosure requirements; developments in the area of disclosure requirements in the past few years, including the application of IFRS on financial reporting in Israel; as well as similar steps taken by other securities regulators worldwide.

In addition, ISA staff members met with various market players, including representatives of institutional entities, lawyers, underwriters, CPAs and analysts. In general, the market’s view is that the description of a company's business is adequate and undoubtedly represents a significant improvement as compared with the period prior to the implementation of the Barnea Report. Nevertheless, it seems that the current disclosure provisions and their application are deficient. The main problem seems to be the excess, immaterial information which is included in the reports, as well as the lack of uniformity and clarity in the application of disclosure requirements and insufficient business disclosure from management’s point of view.

The Project includes, *inter alia*, modification of the reports’ format so that each chapter contains disclosure requirements with similar or identical purpose; determining industry-specific disclosure requirements; clarification of the principles of materiality and reporting from the management’s point of view; as well as establishing extensive disclosure provisions for aspects of corporate governance.

**The new report format**

The new format for the reports will include four main chapters, according to the following order:
1. **Management’s discussion and analysis report:**

   This report will replace the existing board of directors’ report. Its purpose is to review, from management’s point of view, the state of the company’s business and strategy. The main changes regarding the board of directors’ report include a requirement to review the state of the company’s business (including its areas of activity), detailing the impact of developments in the company’s economic environment and its actions as regards the state of the company’s business and its performance. The report will be based on reviewed material information and the discussion and analysis brought before management or conducted by it. The management’s report shall include a disclosure regarding the realization of forward looking information provided in the past. In addition to the chairman of the board and chief executive officer, the chief operating decision maker, as defined in the accounting standards - as well as the chairman of the financial statements review committee - shall also sign the report.

2. **Description of the company’s business report:**

   (a) **Industry-specific disclosure** – following the Barnea Committee, which recommended the development of industry-specific disclosure requirements, and following changes in accounting standards, it was decided to develop specific disclosure requirements for various industries, including investment property, entrepreneurial property, natural gas and oil activities, holding and investments entities as well as biomed companies. In 2010, the ISA published draft directives for the investment property, entrepreneurial property and natural gas and oil industries. A final version of the disclosure directives for the investment property industry was published in January 2011, and a final version for the natural gas and oil industry is scheduled for publication in the first quarter of 2011, to be initially applied for the 2010 annual statements. For further details as regards these directives, please see under Publications Pertaining to the Reporting Improvement Project below;

   (b) **Financing and liquidity chapter** – creation of a new sub-chapter in the description of the company’s business report, which integrates financing and liquidity risk aspects, in light of the lessons learnt from the latest financial crisis;

   (c) **Risk chapter** – creating a new sub-chapter under the description of the company's business report, which focuses on risk management (including operational risks and market risks), for the purpose of creating a comprehensive overview of risks and an inclusive, unified approach thereto.

3. **Financial statements:**

   Although the Project is not directly concerned with financial statements, it was decided to adjust the disclosure requirements in the financial statements due to redundancies between the new requirements and existing requirements in other chapters in the annual statements. In addition, the staff is examining the need to make adjustments to companies' separate financial statements. For more information on this subject, please see under Solo Reports.

4. **Corporate governance report:**

   In light of the ISA’s experience, as well as comments and insights provided by various capital market players, it was decided to create a "designated corporate governance
report”, which will form an integral part of annual financial statements, based – *inter alia* – on the disclosure requirements included in the Securities Regulations, the findings of the Goshen Committee, as well as Proposed Amendments 12 and 13 to the Companies Law.

The report will include a built-in questionnaire, where an affirmative answer to every question will constitute a positive indication for the existence of adequate corporate governance, and vice versa.

The questionnaire will be constructed according to various aspects of corporate governance, including: (a) The board of directors’ conduct; (b) the conduct of the audit committee and the financial statements review committee; (c) approval and control processes as regards transactions with controlling shareholders; (d) the internal auditor; (e) the independent auditor.

A standard questionnaire regarding aspects of corporate governance, which requires specific disclosure as aforesaid, will serve as an efficient, focused and succinct platform for assessing the quality of corporate governance in companies and for the pricing of their securities. For this purpose, the ISA published for public comment, in February 2011, a draft legislative outline regarding corporate governance.

Publications pertaining to the Reporting Improvement Project:

1. Real Estate: regulation changes and trends

In July 2010, the Corporate Finance Department published for public comment two exposure drafts of directives for investment property companies and entrepreneurial property companies regarding reporting policies in their respective industries. The draft directives represent the first phase of the Reporting Improvement Project, where ISA staff are examining various aspects of reporting practices on companies’ state of business in prospectuses as well as in annual and quarterly financial statements and the manner in which the reporting model is applied by reporting companies.

The exposure drafts include a new reporting format, which makes more extensive use of tables, facilitating the reading of annual reports and the extraction of data thereof.

According to the exposure drafts, companies are to report details regarding comparative periods corresponding to those required in financial statements: Consequential data shall be required for three periods, but balance sheet data shall be needed for the reporting year and the end of the corresponding period.

The report will also include financial measures which are not based on IFRS, so as to increase comparability for the performance of the same company across different periods, as well as among different companies operating in the same industry. Thus, for example, the disclosure directive for the investment property industry establishes the use of accepted industry benchmarks, such as Same Property NOI and Funds From Operations (FFO), which are significant and widely used for assessing the results and value of investment property companies. The directives regarding disclosure require entity level disclosures, but also focus on companies’ key assets and projects.

The period for public comment ended in October 2010, and the final version of the Investment Property Directive was published in January 2011.
The Department’s staff continues to examine the draft directive for entrepreneurial property companies. In July 2010, the Corporate Finance Department published for public comment a draft directive for entrepreneurial property companies regarding reporting policies for the industry.

2. Expected cash flow statement

During the month of November 2010, the ISA Plenum approved a disclosure directive pertaining to the preparation of expected cash flow statements by companies for which warning signs are in existence as per Securities Regulation 10(b)(14) (Periodic and Immediate Reports) of 1970. The publication of the directive resulted from experience gained since the abovementioned Regulation 10(b)(14) was enacted, in light of the fact that the ISA found that a significant number of published expected cash flow statements were flawed and did not meet the requirements of the Regulation, and due to the lack of uniformity in this matter. The directive was published due to the great significance of establishing clear criteria for the presentation of expected cash flow statements, including the assumptions underlying it and the board of directors’ notes accompanying the statement.

3. Natural gas and oil industry dilemmas and expected regulation changes

During the month of December 2010, the Corporate Finance Department published a draft directive for oil and natural gas companies regarding industry reporting policies. The draft was prepared following the growth in oil and natural gas exploration activity and the discovery of underwater deposits in the Tamar and Dalit drillings.

The draft directive deals with all aspects of reporting for oil and natural gas companies – annual reports, quarterly reports, immediate reports and prospectuses. According to the main principles of the directive, reporting on resources and gas and oil reserves shall be made in accordance with the international SPE-PRMS model. This model constitutes the basis for reporting on reserves and resources in the gas and oil industry in most developed countries, including the US and Canada.

The directive also includes additional mechanisms for control over reporting. These control mechanisms include the use of independent and qualified professionals, as well as management representation and disclosure mechanisms for the underlying assumptions used in preparing reports.

The exposure draft of the directive was published for public comment on the ISA website. Public comments will be taken under consideration before publishing the final version.

The final version is expected to be published during the first quarter of 2011. However, it should be noted that some of the directive’s principles have already been adopted by several reporting companies.

3. iSOX

Background

On December 12, 2006, the Chairman of the ISA received the report of the Goshen Committee, which examined the appropriate structure and format for a corporate governance code in Israel. The report recommended, *inter alia*, to partially adopt, with modifications, Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (SOX).
Amendment of the Regulations

On December 24, 2009, Securities Regulations (Periodic and Immediate Reports) (Amendment) of 2009 were published, adopting the recommendations of the Goshen Report regarding the assessment of the effectiveness of internal controls and management representation.

When formulating the draft Amendment, ISA staff members conducted meetings and discussions with various entities, including representatives of reporting entities, of the Institute of Certified Public Accountants in Israel, of the CFO Forum, as well as representatives from the largest accounting firms in Israel. In addition, the staff examined models applied in Israel regarding controls and procedures concerning internal control over financial reporting and company disclosures, and assessed possible models for the adoption of management’s representation and implementation of internal controls.

The purpose of the regulations is to improve the quality of financial reporting and disclosure by reporting companies, as defined under the Securities Law, by improving the internal control system over financial reporting and increasing management’s commitment to achieving this goal. For this purpose, the regulations require reporting entities to attach a management representation letter regarding the accuracy of the reports and information contained therein. In addition, a separate report by management is required regarding the effectiveness of internal control system over financial reporting and disclosure. Moreover, it is now required to attach an independent auditor’s opinion regarding the effectiveness of internal controls.

As a result, management is now required to set up an internal control system over financial reporting and disclosure that will provide reasonable assurance as regards the accuracy and reliability of financial reporting and disclosure according to law. In addition, management is required to conduct an ongoing follow up of the company’s internal control system and ensure it is adapted to changes in the company and in its activity.

Internal control over financial reporting and disclosure is comprised, according to the Regulations, of two levels:

The first – controls and procedures designed to provide management with reasonable assurance regarding the reliability of financial reporting and the lawful preparation of the financial statements.

The second – controls and procedures designed to ensure that information which the company is required, under law, to disclose in all its quarterly and annual reports is gathered, processed, concluded and reported in a timely manner and in accordance with the format required by law, and that such information is conveyed to management for the purpose of making timely decisions, in accordance with disclosure requirements. Should there be a material weakness in one of the abovementioned controls which form part of the internal control system, the latter may not be considered effective.

The Regulations are applicable to all reporting entities and not to publically traded companies alone. Although reporting entities which are not publically traded are not bound by corporate governance requirements (such as the appointment of an audit committee and an internal auditor, etc.), the reporting and disclosure requirements in the Securities Law and Regulations apply to reporting entities as well as to publically traded companies (it should be noted, in this respect, that if Amendment 13 to the
Companies Law is approved, bond companies will be bound by corporate governance requirements.

Full application of the Regulations is required beginning with the annual financial statements for the period ending on December 31, 2010. In order to facilitate the application of iSox at the abovementioned date, a gradual arrangement has been made for reporting entities to prepare for application, requiring them to disclose their progress as regards the first-time application of the Regulations and meeting the determined milestones for the application process.

**Publication of an effectiveness assessment model proposed by the ISA**

In order to assess the effectiveness of internal control, management is required to determine and execute assessment procedures, so as to obtain reasonable assurance that the probability of its arriving at a wrong conclusion regarding the effectiveness of internal control system is low.

The accepted practice regarding application of Section 404 of the Sarbanes-Oxley Act of 2002, especially as regards the assessment of the effectiveness of internal control, includes the documentation, testing and analysis of disparities in each business process linked (often indirectly) to financial reporting. Such requirements were criticized for causing companies, especially small ones, to incur significant costs. In addition, it was suggested that this practice results in setting broad work parameters and often in a lack of focus on issues which are at the very core of the business, as well as in the allocation of resources to issues which are not high on organizations’ risk management agenda. For this reason, the Goshen Report recommended that the provisions of Section 404 of the Sarbanes-Oxley Act not be fully adopted, and that a less onerous model be implemented. This model is a combination of the advantages resulting from the use of the Sarbanes-Oxley Act as a reference point and those resulting from achieving better cost effectiveness by significantly limiting the scope – assessing only the risks of financial reporting and disclosures specific to the company. In this manner, the model should result in significantly lower inputs and costs without reducing the quality of the assessment.

On November 23, 2010, Staff Legal Bulletin (hereinafter - SLB) 199-9 was published, entitled Guiding Principles for the Application of Effectiveness Assessment of Internal Control System over Financial Reporting and Disclosure by Management, in accordance with Regulation 9b of the Securities Regulations (Periodic and Immediate Reports) of 1970. According to the SLB, management should examine four components as part of its assessment of the effectiveness of internal controls, as follows: entity level controls; controls over the preparation and finalization of the reports; general controls over information technology systems (ITGC), as well as controls over processes that are highly material to financial reporting and disclosure.

The SLB explains the controls included in each of these components and provides examples thereof. In addition, the ISA provides guidelines for identifying highly material processes for financial reporting and disclosure and for the purpose of defining the scope of the tests and assessment procedures needed as part of the assessment of the effectiveness of internal controls. The staff makes it clear that the combination of focus and delving into the highly material processes in accordance with the risk management model and carrying out tests for the external components, enables management to
come to conclusions regarding the effectiveness of internal controls, reaching a reasonable level of assurance regarding its conclusion.

**The ISA’s activity regarding the application of the Regulations**

As mentioned above, all reporting companies in Israel are required to apply the Regulations as of the 2010 annual reports. These Regulations constitute a major change in the reporting practices of reporting companies in Israel. In order to streamline the first-time application process, the ISA:

(a) Examined whether company reports meet the milestones stipulated in the Regulations and individually addressed companies whose reporting was found to be inadequate.


(c) Answered companies which requested to publish their reports prior to the publication of the audit standard by the Institute of Certified Public Accountants in Israel and prior to the final version of the Auditor’s Opinion Standard by the Institute (please see FAQ 2 (SOX)).

4. **Supervision of Auditors (PCAOB)**

Reporting companies are required to disclose their financial statements. Financial statements constitute a significant part of the overall disclosure to investors. For this purpose, *inter alia*, there exists a profession, the purpose of which is to independently audit the information contained in these statements. Various reasons, including flaws discovered in the work of independent auditors and the problematic system in which these auditors are paid by audited entities, have led developed markets (mostly, yet also some emerging markets) to the conclusion that an independent body should be established, the purpose of which would be to supervise the work of independent auditors auditing reporting companies.

The flaws inherent in the current independent auditor model, as well as the supreme significance of this profession, highlight the extreme significance of establishing such an independent statutory, non-profit body in Israel. This body would supervise, on an ongoing basis, accounting firms auditing reporting companies, and will be in charge of the audit process conducted by its members, setting auditing standards and principles as regards quality control and independency, as well as improving the audit process on an ongoing basis.

The purpose of establishing this body is not only to improve the quality of disclosure and measurement, but also to promote the opening of the market to foreign investors, foreign brokerage firms and promote cooperation with other Western markets, an initiative led by the ISA and which is widely supported by the local market. In order to enhance and strengthen this initiative, the regulatory environment in Israel should be on par with that in target markets. The establishment of such a body is, therefore, a key condition to the ongoing development of the local capital market.
Since there are numerous Israeli companies traded in the US, especially dual listed companies traded both in the US and Israel, it is vital that such a body meet such criteria so as to enable the American PCAOB to fully rely on it.\textsuperscript{5} Such observance will enable the Israeli body to conduct audits of accounting firms auditing Israeli companies traded in the US, in lieu of the American PCAOB. As far as the ISA is concerned, that will constitute increased recognition in the quality of supervision in Israel.

In 2010, the Corporate Finance Department conducted a thorough examination of the current relevant legal environment in a number of countries as well as in Israel. Following that, the Department mapped current flaws in this area in Israel and discussed ways to improve the existing state of affairs. During 2010, the ISA Plenum approved an outline for legislative changes, which would realize the aims as determined above. At this stage, ISA staff members are translating that structure into an amendment to the law, which will regulate the abovementioned outline. When completed, an exposure draft of the proposed amendment will be published for public comment.

5. **Senior Officer Compensation**

According to the provisions of Regulation 10(b)(4) of the Securities Regulations (Periodic and Immediate Reports) of 1970 (hereinafter – the Reports Regulations), a company’s board of directors is required to include in the board of directors’ report, which is attached to the annual financial statements, the relation between the compensation awarded to senior company officers and principal shareholders (hereinafter, together – senior officers) and their individual contribution to the company during the reporting period, in accordance with the requirements of Regulation 21 of the Reports Regulations. In addition, the board of directors is required to note whether the senior officers’ compensation is fair and reasonable.

The purpose of this requirement of the board of directors, as per Regulation 10(b)(4) of the Reports Regulations is, \textit{inter alia}, to ensure that the board of directors is fulfilling its duty of trust and duty of care regarding the compensation of senior officers, in accordance with the provisions of the Companies Law, as well as its duty to act for the benefit of the company.

For this purpose, the board of directors is required, once a year, to examine the compensation agreements and/or management agreements with the senior officers, including the company’s controlling shareholders, and to include in the annual report explanations regarding the relation between the compensation amounts and the contribution of each of the senior officers to the company during the reporting period. In addition, the board of directors is required to declare that the compensation is fair and reasonable or to the contrary – that it is unfair and unreasonable in relation to the reporting period. The board of directors is also required to conduct the aforesaid test in relation to existing agreements which were lawfully approved in the past, thus being

\textsuperscript{5} Rule 4012 (Inspection of Foreign Registered Public Accounting Firms) (hereinafter – the Regulation) creates an infrastructure for cooperation between the PCAOB and corresponding entities outside the US (hereinafter – the Foreign Entity or Entity). The Regulation includes guiding principles used by the PCAOB when determining whether it can rely on a corresponding entity outside the US for the purpose of evaluating the work of accounting firms. This Regulation enables the PCAOB to rely on that entity only if the latter meets its criteria.
legally valid, all in relation to the circumstances in existence at the time that the test is performed.

The ISA’s staff attaches great importance to the details of disclosure provided in accordance with Regulation 10(b)(4) of the Reports Regulations, and therefore also to the test process and discussion conducted by the board of directors in accordance with the requirements of the Regulation.

During 2010, while examining the implementation of Regulations 10(b)(4), 21 and 22 of the Reports Regulations, ISA staff members discovered many cases in which implementation was flawed, including a total lack of reference to the requirements in some reports; partial or laconic disclosure; failure to address all senior officers together; as well as cases where the board of directors did not discuss the relationship between the compensation awarded to a senior officer and his/her contribution to the company and/or the question whether the compensation was fair and reasonable.

In February 2011, in light of the abovesaid and towards the publication of the 2010 annual reports, the ISA published a clarification on the subject, which included major highlights regarding the test and disclosure procedures which the audit committee and board of directors are required to perform in this matter, in accordance with the provisions of the aforementioned Regulation 10(b)(4).

In addition to these actions, the ISA participated in 2010 in discussions with the Ministerial Committee for the Examination of Compensation of Senior Officers in Israel. The ISA presented its position regarding the existing flaws and proposed solutions thereto. In addition, the ISA presented in these discussions a thorough study conducted by its Research, Development and Economic & Strategic Counseling Department, which examined the findings in the area of senior officer compensation.6

6. Corporate Governance – Amendments 12 and 13 to the Companies Law

Proposed Companies Law (Amendment 12) (Improvement of Corporate Governance) of 2010

In 2010, the Government published a proposed amendment to the Companies Law on corporate governance issues. The proposed amendment was developed, inter alia, following the recommendations of the Committee for the Examination of a Corporate Governance Code in Israel, led by Prof. Zohar Goshen, which were published in December 2006. The Committee examined the application of corporate governance principles in Israel and the need to update them in light of developments in this area both in Israel and worldwide.

The proposed amendment includes changes to the Companies Law, which are needed in order to make corporate governance in Israel more efficient, and adjust it to the local environment as well as to relevant practices worldwide. The proposed amendment passed its first reading in the Knesset on March 15, 2010, and was transferred to the Constitution, Law and Justice Committee for further discussion. Staff members from the Corporate Finance Department take part in the Committee’s discussions, representing the ISA’s position on the proposed amendment.

Proposed Companies Law (Amendment 13) (Corporate Governance in Bond Companies) of 2010

In December 2010, the Ministerial Legislative Committee approved a memorandum of law (Amendment 13) (Corporate Governance in Bond Companies) of 2010, which deals with the application of corporate governance principles to companies which issued the public only bonds (hereinafter – bond companies). According to the bill, bond companies will be subject to corporate governance requirements similar to those applicable to companies which raised funds from the public by way of offering shares, with the necessary changes.

Corporate governance requirements proposed for bond companies are based on the view that bondholders are entitled to two kinds of protection: Firstly – granting bondholders protection similar to that granted to shareholders from among the general public, as provided under the Companies Law, such as in regards the assurance of adequate control over financial statements and increasing the independence of the board of directors. Secondly – protection such as exists, in practice, for single material creditors (usually banks) as a result of contractual commitments with a company, such as certain rights regarding transactions which may impair the company’s solvency.

The bill was drafted by the Ministry of Justice and the Israel Securities Authority. The memorandum of law was issued by the Ministry of Justice on January 26, 2010, and is pending discussion by the Ministerial Legislative Committee.

7. Bonds

As part of an initiative to regulate the bond market in Israel, an inter-ministerial forum was established, which includes representatives of the Bank of Israel, the ISA, the Israel Tax Authority, the Ministry of Justice and the Ministry of Finance. In 2010, the team developed a comprehensive amendment proposal draft, the aim of which is to provide the legal and economic certainty required for the proper functioning of the Israeli credit market by bond transactions; to determine under what conditions asset-backed bonds may be offered to the public as part of a bond transaction; as well as to regulate the tax aspects of such transactions. The legislative draft includes a proposal to enact a law for the assignment of rights arising from bonds, along with complementary amendments to the Securities Law and Income Tax Ordinance. The team is expected to issue its final recommendations in 2011.

C. ONGOING REGULATION

1. Public Reporting – Data And Highlights

(a) Prospectuses and capital raising

As part of its ongoing activity, the ISA dedicates considerable management resources and time inputs to reviewing prospectuses filed by reporting entities. These prospectuses undergo several types of reviews, based – inter alia – on the risk management policy determined each year and prioritized according to the ISA’s work plan for the reviewing of annual and quarterly reports.

Applications for permits to publish prospectuses are reviewed by a team comprised of accountants and lawyers. According to the accepted procedure for full reviews (see below), draft prospectuses are first reviewed by the staff, following which meetings are held with representatives of the candidate offeror, where the ISA’s
comments are presented. It should be noted that in 2010, the ISA’s staff began reviewing the majority of prospectus drafts (excluding those of IPOs) by way of correspondence. This means that comments on the draft prospectuses and requests for clarifications arising from the reviews are addressed to candidate offerors by a question letter, so as to render the review more efficient and ensure its uniformity (both for material reasons and for the purpose of efficient time management).

Prospectus review procedures – according to its authority under Section 20a of the Securities Law, the ISA has established, with the approval of the Minister of Finance, procedures for reviewing prospectus drafts of companies and partnerships. According to the procedures, a review of a prospectus draft may be conducted according to the three following alternatives: Full review procedure, partial review procedure (reviewing a number of specific issues in the prospectus) or a brief review procedure (which includes the review of the offering chapter alone). In addition, the procedures include conditions for the application of each of the said review procedures. Furthermore, Section 4 of the review procedures awards the ISA consideration as to which review procedure to apply to a given prospectus draft even if conditions for review under a different procedure are met, in cases where circumstances justify the decision.

As aforesaid, the decision to apply a certain procedure is derived, inter alia, from the ISA’s strategic goals, intended to protect the investing public. Accordingly - in order to meet its goals – the ISA makes increased use of its authority to apply the brief or partial procedure to prospectus drafts, according to the circumstances at hand.

In 2010, 145 applications for permits to publish prospectuses were reviewed under full or partial procedures and 70 applications – under the brief review procedure.

During the past year, the ISA issued a number of announcements regarding the handling of prospectus drafts, including:

1. An announcement regarding Prospectus Review Procedures – Application of Brief, Partial or Full Review Procedures. In this announcement, the ISA informed companies, inter alia, that in order to fulfil its role as a body responsible for protecting the interests of the investing public in securities, it has determined that increasing the scope and frequency of initiated reviews of reports issued by reporting companies is one of its main strategic goals. Meeting this goal entails a reallocation of management resources and time inputs of the ISA staff, shifting some of the time inputs dedicated until now to reviewing prospectuses (i.e., activities initiated in response to applications by companies) to initiating the review of specific annual and quarterly reports.

2. Announcement regarding the extension of the deadline for filing prospectuses, in order to allow the ISA staff to realign its prospectus review system, in light of the growing number of applications for permits to publish prospectuses and in order to improve the processing of such applications and render it more efficient, as well as regarding early announcement of an intention to submit a request for a permit to publish a prospectus – please visit the ISA’s website.

3. Announcement Regarding the Submission of an Application for Obtaining a Permit to Publish a Prospectus (Update and Complementary Information for announcements dated March 5, 2007 and December 18, 2006, regarding prospectus handling procedures), in light of a number of cases where applications
for permits to publish prospectuses did not meet the requirements of the law, including Section 18(a) of the Securities Law, according to which a prospectus draft should exhaustive - include all details required, and the provisions of Section 2(c) regarding the “Handling procedures for applications to permit the publication of prospectuses of companies and partnerships,” according to which the application and accompanying documents, including the prospectus draft, should be exhaustive and include any detail that may be of importance to the reasonable investor considering the purchase of the securities being offered in the prospectus, and any matter or issue that the offeror wishes to discuss with the ISA.

As part of the announcement, the ISA drew the attention of reporting entities to former announcements on this issue, according to which -

a. The filing date of the initial prospectus draft shall be deemed to be the date in which the draft, including all documents accompanying it, meets all of the ISA requirements as determined by the relevant law, regulations and announcements, as well as the full implementation of the comments of the staff reviewing the drafts.

b. An initial draft which does not abide by the regulations and/or is at an inadequate level (including low quality writing or lack of clarity) or a later stage draft in which the staff’s comments have not been implemented, shall not be considered as having been filed and shall not be reviewed. In such cases, companies shall be “sent to the end of the line” and the permit procedure shall be delayed. Accordingly, a refiled draft shall be considered a first draft.

c. In several cases in 2010, where filed draft prospectuses were not in line with the Regulations, the ISA staff informed the filing companies that their applications for permits did not meet the requirements of the law and handling procedures, and that they are therefore required to file new applications for permits to publish prospectuses. Since updated drafts were filed after the deadline for draft prospectuses based on the relevant financial statements (as expressed in the ISA announcement published from time to time), the date for granting permits was delayed to the following quarter and according to the circumstances at hand.
Table 1: No. of applications for permits to publish prospectuses vs. permits granted in 2006-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of applications submitted</th>
<th>No. of permits granted</th>
<th>No. of IPOs out of total no. of permits granted</th>
<th>No. of shelf prospectuses out of total no. of permits granted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>244</td>
<td>174</td>
<td>51</td>
<td>--</td>
</tr>
<tr>
<td>2007</td>
<td>247</td>
<td>276</td>
<td>69</td>
<td>69</td>
</tr>
<tr>
<td>2008</td>
<td>144</td>
<td>91</td>
<td>8</td>
<td>63</td>
</tr>
<tr>
<td>2009</td>
<td>149</td>
<td>104</td>
<td>3</td>
<td>96</td>
</tr>
<tr>
<td>2010</td>
<td>215</td>
<td>143</td>
<td>56</td>
<td>99</td>
</tr>
</tbody>
</table>

Data regarding capital raising and offerings in 2009-2010

In 2010, the business sector\(^8\) raised NIS 8,652 million in stocks, stock options and convertible bonds, NIS 8,476 million of which were raised locally. This as compared with NIS 2,475 million in the previous year, NIS 2,321 million of which were raised locally. This year, the business sector raised NIS 38,228 million through the issue of bonds (excluding convertible bonds), as compared with NIS 29,300 million the previous year. Furthermore, the business sector raised NIS approximately NIS 950 million through the exercise of warrants,\(^9\) as compared with approximately NIS 971 million in the previous year.

In total, the business sector raised\(^10\) NIS 47,830 million in 2010, of which NIS 47,654 million were raised locally, as compared with approximately NIS 32,746 million raised in 2009, NIS 32,592 million of which were raised locally. In 2010, the Government raised about NIS 56 billion (gross) through the issue of tradable bonds, as compared with NIS 69 billion the previous year.

Capital raised locally in 2010 through shares, warrants, and convertible bonds by industry, in NIS millions, in current prices, was as follows: Real estate companies - 4,843.5 (57.2%), as compared with 644.3 (27.8%) in 2009; oil exploration companies - 1,092.9 (12.9%), as compared with 244.7 (10.6%) in 2009; Industrial companies - 945.6 (11.2%), as compared with 557.8 (24.0%) in 2009; investment firms – 868.7 (10.3%), as compared with 283.1 (12.2%) in 2009; banks - 462.1 (5.4%), as compared with 149.9 (6.4%) in 2009; trade and service companies - 250.5 (3.0%), as compared with 115.4 (5.0%) in 2009; insurance companies – 0.0 (0.0%) as compared with 325.8 (14.0%) in 2009.\(^11\)

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\(^7\) Not including companies which published prospectuses abroad after having being exempted from receiving a permit from the ISA (under Section 40(c) of the Law. This section was revoked in 2000).

\(^8\) The capital raising details in this chapter were taken from reports issued by the Tel Aviv Stock Exchange.

\(^9\) Including the exercise of warrants by subsidiaries.

\(^10\) Through shares, convertible securities, bonds and exercise of warrants.

\(^11\) The data included in parantheses constitute the percentage of total offerings in the local market in 2010 and 2009 respectively.
### Table 2: Capital raised and allocations through shares, convertible securities and bonds  
#### 2009-2010\(^{12}\)

<table>
<thead>
<tr>
<th>(NIS millions, in current prices)</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
</table>

#### Shares, warrants and convertible bonds

a. Public offerings

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local shares and warrants</td>
<td>1,823</td>
<td>7,421</td>
</tr>
<tr>
<td>Local convertible bonds</td>
<td>498</td>
<td>1,055</td>
</tr>
<tr>
<td>Foreign issues</td>
<td>154</td>
<td>176</td>
</tr>
</tbody>
</table>

b. Private offerings

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local shares and warrants</td>
<td>3,573</td>
<td>3,744</td>
</tr>
<tr>
<td>Local convertible bonds</td>
<td>103</td>
<td>11</td>
</tr>
<tr>
<td>Foreign issues</td>
<td>875</td>
<td>393</td>
</tr>
</tbody>
</table>

c. Exercise of warrants

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options(^{13})</td>
<td>354</td>
<td>329</td>
</tr>
<tr>
<td>Participation unit options(^{14})</td>
<td>197</td>
<td>293</td>
</tr>
<tr>
<td>Convertible bond options</td>
<td>3</td>
<td>13</td>
</tr>
</tbody>
</table>

**Total shares, warrants and convertible bonds** | 7,580 | 13,435 |

#### Bonds

a. Public offerings

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>29,051</td>
<td>37,406</td>
</tr>
<tr>
<td>Structured bonds</td>
<td>249</td>
<td>752</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>-</td>
<td>70</td>
</tr>
</tbody>
</table>

b. Private offerings\(^{15}\)

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>3,244</td>
<td>1,226</td>
</tr>
<tr>
<td>TACT institutional bonds</td>
<td>2,735</td>
<td>2,996</td>
</tr>
<tr>
<td>Bonds of unlisted companies</td>
<td>762</td>
<td>223</td>
</tr>
</tbody>
</table>

c. Exercise of bond warrants\(^{16}\)

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>417</td>
<td>315</td>
</tr>
</tbody>
</table>

**Total bonds** | 36,458 | 42,988 |

**Total funds raised from the public and private offerings** | 44,038 | 56,423 |

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**Shelf Prospectuses**

Since 2005, companies may offer their securities to the public under shelf prospectuses, after the amendment to the Securities Law and Regulations dealing with this issue came into effect.

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\(^{12}\) Not including index products.

\(^{13}\) NIS 8 million of which by subsidiaries in 2009; NIS 75.7 million of which by companies in 2010.

\(^{14}\) NIS 75.7 million of which by companies in 2010.

\(^{15}\) Excluding NIS 766 million for structured bond offerings for subsidiaries in 2009 and excluding NIS 752 million for structured bond offerings for subsidiaries and NIS 500 million for offering certificates of deposits for subsidiaries in 2010.

\(^{16}\) NIS 58 million of which by subsidiary companies in 2010.
The main purpose of the amendment was to increase the accessibility of the capital market to companies, while reducing the costs incurred by them for a possible offering of securities to the public and reducing the time needed to raise funds, in effect, to a few hours. I.e., shelf prospectuses now enable issuers which meet the requirements of the amendments to offer securities to the public, by means of a single prospectus, a number of times during a period of two years from the date in which the prospectus was published (this does not include prospectuses offering commercial securities), and – as aforesaid – within a short time span (see Section 23a) of the Law.

Near the effective date of shelf prospectuses, and in order to allow companies and investors to prepare for first time application of shelf prospectuses, the ISA published a number of clarifications regarding its intended policy as regards the said instrument, including events which constitute violations of reporting requirements, which will be examined by the ISA, and may result in a possible denial of a company’s entitlement to offer securities under shelf prospectuses or subject it to certain conditions.

Currently, in light of its experience, the ISA is examining the possibility of proposing amendments and changes to offerings under shelf prospectuses (and prospectus offering reports thereof), including as regards the entitlement of companies to offer their securities under shelf prospectuses (not necessarily due to reporting violations) and updating the staff bulletin accordingly. Recommendations for an amendment are expected to be published in 2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of companies offering securities under shelf prospectuses</th>
<th>Total no. of shelf offering reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>94</td>
<td>134</td>
</tr>
<tr>
<td>2010</td>
<td>95</td>
<td>216</td>
</tr>
</tbody>
</table>

(b) Immediate reports

Corporations whose securities have been offered to the public under a prospectus are required to file reports from the time that their securities are offered to the public and as long as the public holds such securities. These requirements include the filing of immediate reports as well as periodic and quarterly statements.

As part of the ISA’s ongoing monitoring of these reports, the Department is responsible for continuously sampling reports filed by companies subject to the Securities Law, using a variety of different methods. When sampling reports, the Department examines their compliance with the Securities Law and Regulations, and with Israeli GAAP, so as to ensure that disclosure requirements are met. If necessary, companies are instructed to amend their immediate, annual and quarterly reports, while in other cases - companies are instructed to clarify reports that have been published, supplement information and/or disclose additional information to the public.

When a violation of the law is found, the ISA may impose a financial sanction on the violating company. If the ISA suspects that the violation was due to criminal motives,
the matter is submitted to the ISA's Investigations and Intelligence Department, following a hearing.

Under the Department's point of contact (POC) model, the companies' POCs regularly review their reports, using their specific familiarity with each company and its particular circumstances. Furthermore, economic and intelligence information systems have been integrated into the financial statements review process. Thus, reviews employ a broader perspective, which takes into account, *inter alia*, the company's commitments, financial position, the identity of the various parties in the company, the economic market indicators, sectorial developments, as well as sophisticated economic models for analyzing the financial position of reporting companies.

The ISA's strategy when reviewing financial statements and immediate reports takes into account recent economic developments and developments pertaining to accounting standards. Accordingly, the Department reallocated supervision inputs for current reports initiated by the market to supervision based on intra-departmental risk management, transferring inputs from new disclosure requirements initiatives to increasing the interpretation of existing rules while increasing enforcement on gatekeepers and fair value. In applying this strategy, this year the Department staff implemented a process for identifying events embodying broad risks, examining for cash flow and financial difficulties in companies, serious violations of disclosure requirements, etc.

**Notices to companies regarding current reporting and electronic reporting requirements**

In accordance with notices published on the ISA website, reporting corporations and their authorized signatories are required, as of the date in which the notice was published, to meet the electronic reporting requirement in accordance with the provisions of the Securities Law and Regulations (Electronic Signature and Reporting) of 2003, as detailed in the notice. Regarding the period prior to the publication of the notice, companies were required to conduct a thorough examination of all reports filed through the MAGNA system, including issues explicitly detailed at the beginning of the notice (the lack of a text search capability and feeding erroneous or missing data into the adjoining page attached to the financial statements (XBRL data)).

As part of the said notices, any reporting company which concluded, following the said examination, that it did not file financial statements dated January 1, 2008 or later in accordance with the electronic reporting requirements, should correct the flaws by publishing revised statements in accordance with the electronic reporting requirement no later than December 31, 2010.

In addition, according to said notices, if a company acts as required, the ISA shall not take any measures against it for violating the electronic reporting requirement regarding the period prior to the publication of the notice.

The following tables present data on companies which failed to file their periodic reports on the dates required by law, and information regarding corporations which failed to file interim financial statements as required by law.
Table 4: Annual reports - delinquent filing

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of companies required to report</th>
<th>Total no. of delinquent filers</th>
<th>No. of companies under liquidation procedures, temporary liquidation, receivership etc.</th>
<th>No. of companies that failed to report 7 days after deadline</th>
<th>No. of companies that failed to report 30 days after deadline</th>
<th>No. of companies that Failed to report 60 days after deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. %</td>
<td>No. %</td>
<td>No. %</td>
<td>No. %</td>
<td>No. %</td>
<td>No. %</td>
</tr>
<tr>
<td>2005</td>
<td>683 162 23.7%</td>
<td>60 8.8%</td>
<td>106 15.5%</td>
<td>92 13.5%</td>
<td>78 11.4%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>745 272 36.5%</td>
<td>62 8.3%</td>
<td>239 32%</td>
<td>200 26.8%</td>
<td>158 21.2%</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>753 117 15.5%</td>
<td>65 8.6%</td>
<td>78 10.3%</td>
<td>76 10%</td>
<td>73 9.7%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>861 136 15.8%</td>
<td>74 8.6%</td>
<td>115 13.4%</td>
<td>99 11.5%</td>
<td>83 9.6%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>839 145 17%</td>
<td>76 9.1%</td>
<td>78 9.2%</td>
<td>78 9.2%</td>
<td>76 9%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>824 137 16.6%</td>
<td>112 13.6%</td>
<td>122 14.8%</td>
<td>119 14.4%</td>
<td>117 14.1%</td>
<td></td>
</tr>
</tbody>
</table>

Table 5: Interim financial statements - delinquent filing

<table>
<thead>
<tr>
<th>Qtr</th>
<th>Year</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>2005</td>
<td>649</td>
<td>115</td>
<td>17.7</td>
<td>62</td>
<td>9.6</td>
<td>95</td>
<td>14.6</td>
<td>91</td>
<td>14%</td>
<td>80</td>
<td>12.3%</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2005</td>
<td>667</td>
<td>109</td>
<td>16.3</td>
<td>63</td>
<td>9.4</td>
<td>86</td>
<td>12.9</td>
<td>81</td>
<td>12.1%</td>
<td>80</td>
<td>12.0%</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>2005</td>
<td>675</td>
<td>130</td>
<td>19.2</td>
<td>63</td>
<td>9.3</td>
<td>100</td>
<td>14.8</td>
<td>85</td>
<td>12.5%</td>
<td>65</td>
<td>9.6%</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>2006</td>
<td>697</td>
<td>120</td>
<td>17.2</td>
<td>65</td>
<td>9.3</td>
<td>106</td>
<td>15.2</td>
<td>99</td>
<td>14.2%</td>
<td>96</td>
<td>13.7%</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2006</td>
<td>708</td>
<td>101</td>
<td>14.2</td>
<td>63</td>
<td>8.9</td>
<td>82</td>
<td>11.5%</td>
<td>69</td>
<td>9.7%</td>
<td>67</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>2006</td>
<td>718</td>
<td>85</td>
<td>11.8</td>
<td>64</td>
<td>9%</td>
<td>71</td>
<td>9.8%</td>
<td>67</td>
<td>9.3%</td>
<td>66</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>2007</td>
<td>772</td>
<td>105</td>
<td>13.6</td>
<td>65</td>
<td>8.4%</td>
<td>80</td>
<td>10.3%</td>
<td>78</td>
<td>10.1%</td>
<td>78</td>
<td>10.1%</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2007</td>
<td>803</td>
<td>114</td>
<td>14.1%</td>
<td>65</td>
<td>8.1%</td>
<td>85</td>
<td>10.5%</td>
<td>81</td>
<td>10%</td>
<td>78</td>
<td>9.7%</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>2007</td>
<td>806</td>
<td>98</td>
<td>12.1%</td>
<td>65</td>
<td>8.1%</td>
<td>78</td>
<td>9.6%</td>
<td>71</td>
<td>8.8%</td>
<td>71</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>2008</td>
<td>797</td>
<td>114</td>
<td>14.3%</td>
<td>71</td>
<td>8.9%</td>
<td>90</td>
<td>11.3%</td>
<td>84</td>
<td>10.5%</td>
<td>82</td>
<td>10.3%</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2008</td>
<td>806</td>
<td>108</td>
<td>13.4%</td>
<td>71</td>
<td>8.8%</td>
<td>80</td>
<td>9.9%</td>
<td>76</td>
<td>9.4%</td>
<td>78</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>2008</td>
<td>801</td>
<td>107</td>
<td>13.4%</td>
<td>74</td>
<td>9.2%</td>
<td>84</td>
<td>10.5%</td>
<td>77</td>
<td>10%</td>
<td>76</td>
<td>9.5%</td>
<td></td>
</tr>
</tbody>
</table>

17 The deadline for filing annual reports is three months after the balance sheet date (or three days after the auditor signed his/her opinion of the financial statements, and - in any case - at least 14 days prior to the general meeting in which the financial statements are to be filed, the earliest of the two). This table does not take into account reports for which the ISA has issued extensions (for extensions – please see table 11 below).

18 The 2004 annual report was the first to have been filed in accordance with the Barnea Regulations' extended format. Reporting delays are apparently due to the need to adjust reports to the requirements contained in these regulations.

19 This table includes only delinquent filings due to failure to meet filing deadlines and takes into account extensions approved by the ISA.

20 Companies reporting under Chapter E(3) are not bound by US law in filing interim financial statements and therefore are not included in this figure.
(c) Financial reporting and valuations

1. Review of financial statements

As part of the ISA’s strategy to review the financial statements of all companies within a few years, in 2010 the ISA staff continued to initiate reviews of financial statements published by reporting companies.

The review of financial statements in 2010 revealed that some reporting companies failed to adequately comply with disclosure requirements and implement generally accepted accounting and reporting principles at the required level. These companies were thus ordered to restate their financial statements and revise their disclosure in accordance with the law. Following discussions held between ISA staff members, companies and their independent auditors, most companies decided to correct and clarify their reports of their own accord, without being formally asked to do so by the ISA. In other cases, the staff became convinced after hearing a company's position. Other cases are still pending.

2010 was dedicated to examining the 2009 annual reports and quarterly reports for 2010. ISA staff members examined these reports for the adequate implementation of IFRS. The staff specifically focused on examining the adequate implementation of IFRS as regards the following issues:

a. Segment reporting (IFRS 8);

b. The existence of significant control and influence (IAS 27, IAS 28, IFRS 3), and the adequate accounting for holding rates, while examining whether a change in the nature of the holding has taken place (significant control/influence);

c. Revaluation of investment property (IAS 40); For more information regarding fair value and valuation issues, please see below;

d. Classification of liabilities as current and non-current;

e. The adequacy of disclosure regarding testing for the going concern assumption underlying the preparation of the financial statements (IAS 1), as well as the phrasing of the auditor’s opinion as regards this issue;

f. Impairment of financial instruments, especially the impairment of available-for-sale financial assets (IAS 39).

2. Valuations

The use of valuations for the purpose of reporting or in order to establish the grounds for accounting data has been the practice for many years. However, the adoption of IFRS has increased the use of valuations. In order to ensure the reliability of reporting in general, and of financial statements in particular - especially that of publically traded companies – the ISA has decided to prioritize the issue of monitoring the level of disclosure and reasonability of valuations. For
this purpose, in 2010 the staff conducted in-depth examinations of a number of valuations, in some cases with the help of external experts.

Such steps have led to increased disclosure as regards some issues pertaining to valuations, including establishing the grounds for underlying assumptions, extended disclosure as regards similar assumptions in other valuations conducted by the same valuer, sensitivity tests which expose to users the sensitivity of the valuation to the various assumptions, etc.

In addition, in some cases, after the ISA called their attention to problematic issues, some companies restated their financial statements, replaced their auditors, included new valuations, improved the conditions offered to bondholders in creditor settlement agreements, and in one case, a transaction with a controlling shareholder was cancelled.

Towards the end of 2010, the ISA decided to increase the enforcement of this issue among auditors in order to improve the quality of auditing in this area. This will be carried out in 2011.

Regulation 8b of the Securities Regulations (Periodic and Immediate Reports) of 1970 includes provisions regarding the disclosure requirement and/or attachment of material and highly material valuations to annual financial statements.21

After discussing certain cases, the ISA staff realized that the terms “material valuation” and “highly material valuation” are not uniformly interpreted, and that companies apply different tests and quantitative thresholds to determine the materiality of valuations. In order to unify reporting and create certainty among reporting companies, the ISA’s staff published SLB 105-23, which addressed the quantitative parameters which guide the staff when examining the materiality of valuations, as detailed below.

(d) Transactions with controlling shareholders

Transactions of publically-traded companies in which controlling shareholders have a personal interest are not prohibited by the Companies Law. Nevertheless, since they clearly exemplify the principle-agent problem in centrally controlled companies which are typical of the Israeli market – they harm public confidence in the capital market.

For this reason, the Companies Law limits a company’s ability to enter into such transactions to those that benefit the company and have undergone approval according to a specified procedure, which currently includes the support of one third of the shareholders who have no personal interest in approving the transaction.

Transactions involving the personal interest of a controlling shareholder and which are subject to the special approval procedure include extraordinary transactions carried out with a controlling shareholder or in which a controlling shareholder has a personal interest, private offerings in which a controlling shareholder has a personal interest, as well as approval of terms of employment or service of a controlling shareholder or a relative thereof (see Section 270(4) of the Companies Law).

21 For the definition of “material valuation” and “highly material valuation”, please see regulation 1 of the Reports Regulations.
The Securities Law recognizes the implications of such transactions and its regulations address the specific requirements they entail:

Securities Regulations (Transaction between a Company and a Controlling Shareholder therein) of 2001 (hereinafter – the Controlling Shareholder Regulations) determine disclosure requirements that apply to reporting companies in connection with the special approval procedures required for such transactions.

In addition, when a transaction with a controlling shareholder does not require specific approval in a shareholders’ meeting, the company is required - under the Securities Regulations (Periodic and Immediate Reports) of 1970 - to disclose it in an immediate report as well as in its annual financial statements.

During 2010, the Knesset’s Constitution, Law and Justice Committee began discussing a proposed amendment to the Companies Law (Amendment 12, as detailed in Section b(6) above), which proposes, inter alia, to increase the size of majority vote required in order to approve transactions with controlling shareholders – usually from among the shareholders who have no personal interest in approving the transaction. In addition, the proposal includes a requirement to bring continuing transactions between a company and a controlling shareholder to the approval of shareholders every three years.

The types of transactions contained in the aforesaid reports are numerous and varied. Most reports were concerned with approval of appointments and terms of employment, indemnification and management fees. Other reports filed in accordance with the Controlling Shareholders Regulations dealt with acquisition of operations, goods or equipment from a controlling shareholder; acquisition of shares in another company controlled by the controlling shareholder; sale of operations or assets to a controlling shareholder; guarantees; deposits; financing agreements; provision of various services; insurance arrangements; acquisition of knowledge, etc.

The Corporate Finance Department invests significant efforts in reviewing disclosures of such transactions, so as to ensure that shareholders possess all information required to cast their votes.

In addition to examining the disclosure of the transaction itself, the Corporate Finance Department reviews various issues related to transactions between a company and its controlling shareholders where the controlling shareholder has a personal interest. These issues include determining whether transactions are irregular; whether transactions between companies and other parties constitute transactions in which a controlling shareholder has a personal interest; determining whether shareholders are interested parties regarding the approval of a transaction; whether an asset or activity in a transaction is material; whether the approval process of a transaction by various company organs was adequate, etc.

As in previous years, in 2010 emphasis was placed on examining voting results in general meetings. As part of its work on this issue, the ISA staff contacted companies and requested information regarding voters in their general meetings. This information included, inter alia, details of the voters’ relation to the company and its controlling shareholder. In some cases, companies were required to publish immediate reports containing this additional information.
During the past year, the ISA staff dedicated special attention to examining the procedures for approval of transactions in the board of directors and companies’ auditing committees, ensuring that the transactions brought to the approval of the shareholders benefit the company. In some cases, the staff expressed its opinion that certain actions taken by the organs of companies as part of the approval of the transaction do not benefit the company. Such an opinion is expressed only in extreme cases and involves an in-depth legal review.

Over one half of the transactions approved this year (as well as in 2009) were approved by over 90% of the shareholders that have no personal interest in approving the transaction. Approximately 24% of the transactions approved this year received 100% of the votes of shareholders who have no personal interest in approving the transactions, while in 2009 this rate reached 29%.

Table 6: No. of transactions with controlling shareholders

<table>
<thead>
<tr>
<th>Year</th>
<th>Transactions approved</th>
<th>Unapproved transactions</th>
<th>Transactions cancelled</th>
<th>Total no. of transactions</th>
<th>Transactions for approval of salaries and remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>372</td>
<td>11</td>
<td>15</td>
<td>398</td>
<td>120</td>
</tr>
<tr>
<td>2010</td>
<td>441</td>
<td>7</td>
<td>18</td>
<td>470</td>
<td>71</td>
</tr>
</tbody>
</table>

(e) Private Offers

The Securities Regulations (Private Offering of Securities in a Listed Company) of 2000 (hereinafter – the "Private Offering Regulations") determine three levels of disclosure: exceptional private offerings, which require the most extensive disclosure; substantial private offerings; and insubstantial private offerings, as defined under the Private Offering Regulations. An exceptional offering is an issue of securities granting 20% or more of the total voting rights in a company before the offering, or an offering resulting in the offeree becoming a controlling shareholder of the company. A substantial offering is an issue to a party holding 5% or more of the issued capital or the total voting rights in the company, or to a party that will hold that amount after the offering, and any offering to a director or general manager that is not an exceptional offering. Any other private offering that is neither exceptional nor substantial is an insubstantial private offering.

The authorization mechanisms required of a company to carry out a private offering is specified in the Companies Law, according to the total issued capital, the consideration paid (by way of cash and securities or otherwise) and the characteristics of the offeree. According to the Companies Law (following the enactment of Amendment 3 about a year ago), a general meeting is required to approve private offerings following the approval of the board of directors only when the offering is a “substantial private offering” as defined under the Companies Law.22

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22 According to the Companies Law, a "substantial private offering" is an allocation where one of the following transpires:

1. An offer of 20% or more of the voting rights in a company when all or part of the consideration is not paid in cash or securities listed for trading, or is not according to market conditions (as defined under the amended version of the Law) and as a result of which the holdings of securities by a principal shareholder (i.e. - a shareholder holding 5% or more of the issued capital
The Companies Law also requires that a private offering be approved when the controlling shareholder has a personal interest therein, whether or not it constitutes an exceptional transaction. This approval is to be granted under a special procedure prescribed by the Companies Law.

The reports are reviewed by ISA staff as part of the ongoing review of companies' reports. According to the provisions of the Private Offering Regulations, the ISA is authorized to request explanations, further details, information and documents, and - if necessary - instruct that the immediate report be amended. The ISA staff exercises its power in cases where, in its opinion, the details provided in an immediate report are incomplete or unclear. In such cases, the company issues a revised immediate report and the shareholders are issued an amended notice regarding the private offering, which includes the missing details and clarifications. In certain cases, and subject to the Regulations, the ISA may order a postponement of a shareholders' meeting of no less than three business days and no more than 21 days from the date of publication of the revised report.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total no. of reports regarding private offerings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>134</td>
</tr>
<tr>
<td>2009</td>
<td>126</td>
</tr>
<tr>
<td>2010</td>
<td>181 (47 of which were exceptional offerings)</td>
</tr>
</tbody>
</table>

(f) Purchase offers

The Securities Regulations (Purchase Offer) of 2000 (hereinafter – the Purchase Offer Regulations) require the filing of a purchase offer specification in three cases:

1. An ordinary purchase offer, i.e. - an act of an offeror intended to induce holders of a listed company's securities or convertible securities to sell securities to the offeror;

2. A full purchase offer, as defined under Section 336 of the Companies Law;

3. A special purchase offer, as defined under Section 328 of the Companies Law.

An individual seeking to make a purchase offer to the shareholders of a listed company must do so by means of a written specification, as prescribed by the Purchase Offer Regulations.

Under the Purchase Offer Regulations, the ISA is authorized to demand explanations, further details, information and documents regarding information included in a purchase offer specification, and regarding any other matter which the ISA believes should be included in the specification pursuant to the Regulations. Furthermore, the ISA may even demand that the specification be amended. Thus, offerors were

or voting rights of a company) shall increase, or which shall result in an individual becoming a principal shareholder following the issue;

2. An offering which shall result in an individual becoming a controlling shareholder in the company.

In addition, Amendment 3 broadened the definition to include an offering by a public company to sell dormant securities, which is not a public offering (i.e. - selling dormant shares outside the course of trading on the Stock Exchange).
required to include various details in their specifications, such as the offeror’s agreements with other parties, financing, notices given by holders of securities in the target company to the offeror regarding their intent to accept the purchase offer, etc.

Furthermore, offerors were required to provide information regarding the counting of dormant shares, exclusion of offerees, personal interests of offerees, offerors holding over 90% of a company's issued and paid-in share capital, joint holding by offerors, etc.

In 2010, the ISA Plenum decided to amend the Purchase Offer Regulations to the effect that when a full purchase offer by the company or by the controlling shareholder thereof or by an officer thereof or by an offeror to which the company has provided access to non-public information prior to the purchase offer (as well as in an alternative purchase offer procedure in accordance with Section 350 of the Companies Law or Section 320 of the Law, the effect of which is that the company becomes private or is liquidated), the offeror and the board of directors of the target company shall be required to provide a declaration regarding the offered price. In addition, in such cases the target company shall be required to publish a report in which material changes or new events that have occurred since the publication of the last annual or quarterly report (as required of corporations publishing shelf prospectuses).

Moreover, it was decided, as part of the amendment, to expand the scope of the Purchase Offer Regulations, so that they include purchase offers for bonds non-convertible to stocks (straight bonds).

<table>
<thead>
<tr>
<th>Year</th>
<th>Ordinary purchase offers</th>
<th>Full purchase offers</th>
<th>Special purchase offers</th>
<th>Total no. of reports regarding purchase offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5</td>
<td>31</td>
<td>8</td>
<td>44</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>18</td>
<td>2</td>
<td>21</td>
</tr>
</tbody>
</table>

(g) Bond Settlement Agreements And Bond Trustees

In recent years, extensive debt has been raised by means of public bond offerings, as an alternative to bank-issued credit. The global credit crisis and its local effects have adversely affected the issuing companies' ability to repay bondholders and subsequently recycle their debts. In 2010, 60 corporations initiated debt settlement proceedings with their bondholders, as compared with 48 in 2009.

Ongoing processing of debt settlement agreements

As part of its ongoing handling of debt settlement agreements, the ISA reviews disclosures made by companies both pursuant and prior to the settlement; the need for issuing a prospectus as part of the agreement so as to guarantee the proposed offerees' interests; and the feasibility of issuing the proposed securities and their listing for trade as required by law. In court-sanctioned agreements made in accordance with Section 350 of the Companies Law, the ISA has often been requested to present its position regarding the manner of summoning class meetings and the disclosure provided to securities holders prior to handing its decision regarding the approval of the settlement. Furthermore, the ISA occasionally
presented its position to the court, of its own accord, pursuant to Section 35O(b), in cases where the ISA considered it its duty to protect the interests of investors in securities.

2. Reports to the ISA and Requests for Exemptions and Extensions

(a) Termination of reporting requirements

During the past year, the ISA sought to promote an amendment outline to the Regulations regarding additional alternative for the termination of companies’ reporting requirement (under Amendment 2 to the Periodic and Immediate Reports Regulations), beyond the existing alternatives under the current Regulations, in order to match them to current circumstances, including regarding a court-sanctioned increase in the number of securities holders, the manner in which struggling companies terminate their reporting requirements, as well as the termination of reporting requirements for companies following a decision by the ISA (in special cases, when all conditions are met). A proposed draft amendment is due to be published for public comment during 2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total no. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
</tr>
</tbody>
</table>

(b) Exemption applications

Pursuant to the powers granted to it under the Securities Law, the ISA may exempt corporations from certain reporting requirements, including from the publication of prospectuses, in accordance with Section 15d of the Securities Law. Such exemptions are granted to companies that are listed outside Israel and that do not constitute reporting companies as per the offer of securities to their employees and their Israeli subsidiaries as part of an employee compensation plan. In addition, the ISA exempts companies from specific disclosures if it deems that the latter constitute trade secrets which justify their non-disclosure or if their disclosure may harm Israel’s security or its economy or an investigation conducted by the Israeli police or the ISA. Such exemptions are granted for prospectuses under Section 19 of the Securities Law, and for current reports - under Section 36c of the Securities Law.

23 Regarding the number of the company’s shareholders from among the public – according to one alternative – 10 shareholders, and according to another – 35 shareholders, including additional conditions detailed in the Regulation.
Table 10: Exemption applications

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of fully approved exemption applications</th>
<th>No. of partially approved exemption applications</th>
<th>No. of applications cancelled or withdrawn by the company</th>
<th>No. of applications denied</th>
<th>No. of applications for exemptions regarding publication of prospectuses</th>
<th>Total no. of exemption applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>54</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>22</td>
<td>62</td>
</tr>
<tr>
<td>2009</td>
<td>60</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>74</td>
</tr>
<tr>
<td>2010</td>
<td>64</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>16</td>
<td>71</td>
</tr>
</tbody>
</table>

(c) Extension applications

According to the Securities Law, the ISA, or an authorized employee thereof, may extend the time prescribed in the Regulations for filing reports (hereinafter - grant extensions), if it is convinced that a company is unable to file its report on time (see Table 11 below).

The ISA attaches great importance to the timely filing of reports, and not merely to the disclosures included therein. As a result, the ISA exercises its power to grant extensions only in very exceptional cases.

Currently, according to an amendment to the Securities Law which went into effect in October 2007, the ISA may impose financial sanctions on companies which are late in filing their reports. For further information regarding financial sanctions, please see Section 9 below.

Table 11: Extension applications, 2008-2010

<table>
<thead>
<tr>
<th>Report</th>
<th>Year</th>
<th>No. of applications submitted</th>
<th>No. of applications denied</th>
<th>Extensions granted for up to 30 days</th>
<th>Extensions granted for 31-60 days</th>
<th>Extensions granted for up to 60 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>annual</td>
<td>2007</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Q1</td>
<td>2008</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Q2</td>
<td>2008</td>
<td>1</td>
<td>1</td>
<td>100%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Q3</td>
<td>2008</td>
<td>5</td>
<td>3</td>
<td>60%</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>annual</td>
<td>2008</td>
<td>11</td>
<td>7</td>
<td>63%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Q1</td>
<td>2009</td>
<td>5</td>
<td>2</td>
<td>40%</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Q2</td>
<td>2009</td>
<td>3</td>
<td>1</td>
<td>33%</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Q3</td>
<td>2009</td>
<td>5</td>
<td>3</td>
<td>60%</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>annual</td>
<td>2009</td>
<td>7</td>
<td>5</td>
<td>71%</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Q1</td>
<td>2010</td>
<td>3</td>
<td>1</td>
<td>33%</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Q2</td>
<td>2010</td>
<td>3</td>
<td>3</td>
<td>100%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Q3</td>
<td>2010</td>
<td>4</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

\(^{24}\) In cases where one company submitted more than one application regarding a single report, all applications were deemed as one. The application was classified according to the last approved date.

As of January 2008, all companies subject to the Securities Law file reports in accordance with the International Financial Reporting Standards (hereinafter - IFRS). The adoption of IFRS in Israel was one of the steps taken by the ISA in order to further the integration of the Israeli capital market within the global capital market and increase the level of transparency and standard of reporting in Israel.

As a result of this, a large part of the ISA’s work is dedicated to examining the implementation of IFRS, so as to ensure that it is done as elsewhere in the world, thus guaranteeing and enhancing the integration of the Israeli capital market into the global map. To this end, the Corporate Finance Department invests significant efforts and initiates many projects related to IFRS.

This includes, *inter alia*:

a. **The adjustment of the Securities Law and Regulations to the IFRS** – in January 25, 2010, a number of amendments were published: Securities Regulations (Annual Financial Statements) of 2010 (hereinafter – the Annual Financial Statements Regulations) and Securities Regulations (Periodic and Immediate Reports) (Amendment 2) of 2010 (hereinafter – the Periodic and Immediate Reports Amendment) (hereinafter, together - the New Regulations), along with a number of additional amendments regarding the anchoring of IFRS in the Securities Regulations and adjusting the latter thereto.

As part of these regulations, the existing disclosure provisions have been amended and a number of new provisions, not previously in existence, were established, as part of the Securities Regulations (Preparation of Financial Statements) of 1993 (which were revoked following the enactment of this Amendment) and Securities Regulations (Periodic and Immediate Regulations) of 1970 (hereinafter – Periodic and Immediate Regulations) (hereinafter, together – the Previous Regulations), including:

- Regulations and provisions contradicting IFRS were revoked;
- The wording of existing regulations, not revoked albeit IFRS, was changed, so that the terms used therein be compatible with those in the IFRS. Other regulations and provisions were added so as to reflect IFRS requirements. A disclosure requirement was extended, regarding guarantees granted and cases where financial statements were required to be attached to a guaranteed company, including the manner in which such statements should be attached thereto; a requirement was established to provide summary information, in table format, as regards investments in investees; a requirement was established regarding the provision of disclosure about entrepreneurial projects; a requirement was established to disclose a company’s operating cycle; disclosure requirements regarding the conditions for pledges and collaterals were extended; new rules for the presentation currency of financial statements were prescribed; a disclosure

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25 Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus) (Amendment) of 2010; Securities Regulations (Private Offering of Securities in a Listed Company) (Amendment) of 2010; Securities Regulations (Transaction between a Company and a Controlling Shareholder therein) (Amendment) of 2010; and Securities Regulations (Presentation of Transactions between a Corporation and a Controlling Shareholder therein in Financial Statements) (Amendment) of 2010.
requirement was prescribed for sales which include credit transactions as well as general and particular details required for the comprehensive income line items and statement of the financial position line items.

- The test was prescribed for combining financial statements of associates and manner of combination thereof, so that the quantitative threshold was raised to 20% (rather than 10% in the previous regulations). In addition, a new requirement was set for the provision of summary information regarding associates the reports of which are not required to be combined, but which meet the quantitative tests provided in this matter in the Regulations (a quantitative threshold of 10%);

- An additional requirement for the provision of separate financial information was added, according to the method provided in Amendment 10 to the Periodic and Immediate Reports Regulations and the staff bulletin dated January 24, 2010.

The Regulations are effective beginning with the financial statements for 2009.

b. Solo reports – around the time when IFRS were adopted in Israel (January 2008), the ISA staff published FAQ 11, which delineated the principles underlying solo reports required by companies as of that date. According to this publication, solo reports are to be prepared in accordance with IFRS and are to be published only as part of the annual report.

Following the latest financial crisis in capital markets, in Israel as elsewhere, there arose a need to issue solo reports – which include highly valuable information - more often, more than once a year. This in order to enable investors to receive extended information regarding reporting companies' liquidity and solvency.

Due to the aforesaid, the ISA initiated a legislative amendment approved by the Knesset’s Finance Committee in January 2010. As part of the aforementioned amendment, the Securities Regulations (Periodic and Immediate Reports) of 1970 were amended, and the requirement to attach to the annual financial statements separate financial statements as per IAS 27 (and as a note to the main financial statements, as required by FAQ 11) was revoked. Nevertheless, companies are required by law to publish solo reports in the following format:

- Solo reports should be published on a quarterly basis; quarterly reports should be reviewed, while annual reports should be audited.

- Solo reports shall not be prepared in accordance with IFRS, but in accordance with the provisions of Regulation 9c and Amendment 10 to the Securities Regulations (Periodic and Immediate Reports).

In January 2010, the ISA staff published a clarification to the aforementioned Regulation Amendment. The Clarification dealt with the required treatment of inter-company transactions in solo reports and the extent of disclosure required in the notes to solo reports.

In this respect, it should be noted that towards the end of 2010, and in light of the Reports Improvement Project, the ISA staff decided to re-examine the preparation format and publication timing of solo reports. No change has been made regarding to the amendment of said Regulations as of the publication of this report.
c. **Participation in the IOSCO’s Standing Committee on Multinational Disclosure and Accounting (SC1)** – during 2010, the ISA joined the SC1 as a member. The SC1 is a professional subcommittee of the IOSCO Technical Committee, which is in charge of discussions regarding financial reporting. This includes commenting on proposed standards and documents published by the IASB, publishing fundamental positions regarding aspects of financial reporting, and constitutes a platform for exchanging opinions between various regulators worldwide.

d. **Joining the IOSCO Database** – During 2008, as part of the adoption of IFRS, the ISA joined the IOSCO Database. This database includes the enforcement decisions of IOSCO member regulators regarding the application of IFRS. The ISA thus updates its accounting enforcement decisions regarding the application of IFRS since their adoption in Israel, and also keeps up to date with enforcement decisions issued by other regulators, so as to learn what issues were discussed and what positions were taken by the regulators on those issues.

e. **Taking part in the IFRS Teleconference** – during this multi-participant teleconference, IOSCO members who have adopted IFRS exchange professional views regarding accounting issues with which regulators deal as part of their ongoing regulation work and enforcement activity.

4. **Staff Position Papers**

   (a) **General**

   As every year, the ISA published on its website the accounting and legal decisions made by its staff, which are of principal interest to investors and reporting companies. These publications were made in a variety of formats, including the publication of SLBs (Staff Legal Bulletins), FAQs (Frequently Asked Questions), preruling directives, enforcement decisions, as well as clarifications by way of notices to companies. Thus, the ISA seeks to increase transparency and minimize uncertainty among reporting companies.

   (a)(1) **Staff and Plenum position papers and FAQs:**

   Staff and Plenum position papers are professional position papers which reflect the decisions and positions of the staff or Plenum on issues regarding the application of the Securities Law and Regulations. They appear on the ISA’s website. The content of the position papers guides the ISA and its staff regarding the manner in which to exercise their authority and enables the public to use and apply them in similar circumstances. In addition, position papers regarding corporations’ immediate reports also appear on the ISA’s website. The ISA’s staff also publishes notices to companies, under the title Notices to Companies, on its website.

   **FAQs** - as of January 2008, all companies subject to the Securities Law file reports in accordance with IFRS. In order to improve uniform accounting, minimize uncertainty regarding the application of IFRS, ensure fair disclosure in problem areas, and in order to provide answers to questions raised by reporting entities and accountants regarding IFRS reporting during first-time adoption of IFRS in Israel, the Department’s staff issued FAQs regarding matters pertaining to IFRS-compliant reporting, the application of the
Standards, and additional disclosures required under the Securities Regulations and directives issued pursuant to the Law.

(a)(2) Pre-rulings:

The pre-ruling procedure allows companies to submit legal and accounting queries prior to taking action, in order to evaluate the proper course of action. Pre-rulings usually deal with complex issues that have innovative aspects or are broad in scope, where the answer is not self-evident. The ISA prioritizes queries according to urgency and necessity, in light of the abovementioned characteristics. There are two main kinds of queries:

- Request for a pre-ruling regarding a planned transaction.
- Request for a no-action letter, i.e. - a statement confirming that the ISA will not take any enforcement action against the company under the circumstances described in the request.

In January and April of 2007, the ISA made decisions regulating the issue of pre-rulings and their publication. The procedure was updated in June 2008. According to a decision published by the ISA, pre-ruling requests must be submitted in keeping with the specified procedure as published (including the manner in which to submit requests, information to be included in requests, publication of the request and the answer thereto). The query and the answer are published on the ISA website, following criteria specified by the ISA.

During 2010, the Corporate Finance Department received a total of 83 pre-ruling queries versus 78 in 2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of accounting requests</th>
<th>No. of legal requests</th>
<th>Total no. of requests</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>49</td>
<td>68&lt;sup&gt;1&lt;/sup&gt;</td>
<td>117</td>
</tr>
<tr>
<td>2009</td>
<td>25</td>
<td>53&lt;sup&gt;2&lt;/sup&gt;</td>
<td>78</td>
</tr>
<tr>
<td>2010</td>
<td>51</td>
<td>32</td>
<td>83</td>
</tr>
</tbody>
</table>

<sup>1</sup> Not including 11 pre-ruling requests regarding financial instruments.
<sup>2</sup> Not including 6 pre-ruling queries regarding financial instruments.

(a)(3) Accounting enforcement decisions:

In order to preserve the public’s confidence in financial reporting, the ISA continued to enhance its review of financial statements published by reporting companies. Following these reviews, the ISA issued accounting enforcement decisions detailing the measures taken in cases of incorrect financial reporting.

(a)(4) Auditing enforcement decisions:

Audits of financial statements, conducted by independent auditors, are a supreme vehicle for enhancing the reliability of information provided to the public by means of financial statements. This reliability is the cornerstone of a properly functioning capital market, and any harm thereto undermines the public’s confidence in that market and its readiness to invest in it.
The ISA’s staff attaches great importance to conducting adequate audits of the financial statements of reporting companies, and takes a number of steps to ensure that this goal is met.

As part of its ongoing review of financial statements issued by companies for compliance with the provisions of the law (including the lawful preparation and auditing of the financial statements), ISA staff members encountered a number of cases where companies’ auditors did not act according to the requirements of their profession as CPAs, especially those pertaining to auditors auditing the financial statements of a reporting companies.

In such cases, the ISA’s staff takes action against the company the statements of which were found to be faulty. The staff takes action against the company’s auditor, according to the nature of the faults. In addition, as part of the individual action taken, the ISA’s staff brings some of the cases to the attention of the public, including publishing enforcement steps taken regarding them. This is done in light of the importance of the principles of disclosure and transparency and the ISA’s adherence thereto.

(b) Legal Staff position papers published in 2010:

(b)(1) Staff and Plenum Position Papers

Following is a brief description of the key Staff position papers (SLBs and SABs) papers and Plenum decisions published in 2010:

- **SLB 105-22: Details regarding market risk exposure**

  Following the decrease of some interest rates to near zero following the financial crisis, in a number of cases a minute daily difference in said interest resulted in a highly significant daily difference. The SLB includes clarifications as to the sensitivity test required under Section 2f of Amendment 2, in relation to interest stress tests.

- **SLB 105-2: Legal parameters for materiality of valuations tests**

  Regulation 8b of the Securities Regulations (Periodic and Immediate Reports) of 1970 states that when a material valuation serves as the basis for determining the value of data in the annual report, certain parameters should be disclosed, as prescribed in Regulation 8b(i), and if a valuation is highly material, it should be attached to the annual report.

  Because of the lack of uniform interpretations of the terms "material valuation" and "highly material valuation", the ISA’s staff published its position regarding the quantitative parameters guiding the staff when examining valuations for materiality.

- **SLB 199-8: Safe harbor protection in the self purchase of a corporation’s securities**

  On July 26, 2010, SLB 199-08 regarding “safe harbor protection” in the self purchase of securities was published. The SLB clarifies that “safe harbor” protection shall be granted when companies self purchase their securities under

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26 It should be made clear that the description in this report regarding positions published by the ISA’s staff does not include all the provisions and decisions underlying said position papers.
conditions specified in that SLB. The ISA emphasized that the position does not alter or undermine rules prescribed regarding the use of inside information.

(b)(2) ISA position papers following public reports reporting companies

On August 15, 2010, the ISA published a new database of references to staff position papers regarding reports published by reporting companies. This database contains staff positions regarding the treatment of specific cases, which the Staff deems to be of broad significance. The positions papers included in the database will be published in addition to pre-rulings on similar issues.

In 2010, the staff issued six position papers on the subject of “controlling shareholders, principal shareholders and senior officers.”

(b)(3) Pre-rulings

In 2010, 32 pre-ruling requests were submitted, as compared with 53 such requests in 2009. In addition, eight legal pre-ruling requests were submitted in 2009. Three of the legal pre-ruling requests submitted in 2010 also contained accounting issues and questions.

Most of the legal questions in the past year dealt with the following issues: shelf prospectuses and shelf registration reports; whether an offering of securities constitutes a public offering; underwriting; holdings of principal shareholders; “joint holding”; approval of transactions with senior corporate officers and controlling shareholders; personal interests of controlling shareholders; purchase offers and exchange purchase offers; private offerings; various settlement agreements, including bondholder agreements under Section 350 of the Companies Law; competency of external directors; inside information; changes to deeds of trust; conflicts of interest pertaining to bond trustees; self-acquisition of securities; limited partnerships; delayed immediate reports; SEDA mechanism; the definition of “institutional investor” and “classified investor”, etc.

(b)(4) iSox

SLB 199-9: Guiding principles for evaluating the effectiveness of internal control over the financial reporting and disclosure by the board of directors and management, in accordance with Regulation 9b of the Securities Regulations (Periodic and Immediate Reports) of 1970:

Following the publication of Securities Regulation (Periodic and Immediate Reports) (Amendment) of 2009 (hereinafter – the iSox Regulations) regarding the evaluation of the effectiveness of internal control over the financial reporting and disclosure and the provision of management’s declaration and disclosure, whose first time application begins for the 2010 annual financial statements, the ISA’s staff published a decision providing guidelines for the process and actions to be undertaken by management and by the board of directors for the purpose of evaluating the effectiveness of internal control in order to meet the requirements of the abovementioned regulations.
(c) Accounting Staff Position Papers (hereinafter – SABs) published in 2010:

(c)(1) Pre-rulings

In 2010, 51 accounting pre-ruling requests were submitted, as compared with 25 such requests in 2009. In addition, three accounting pre-ruling requests submitted in 2009 were handled during the year. Six of the legal pre-ruling queries submitted in 2010 also contained legal issues and questions.

Most of the accounting questions in the past year dealt with the following issues: Independency; proforma financial information; existence of significant influence; existence of control; changes in holding rates of investees (including the question of loss of control and the possibility of recognizing revaluation profits); solo financial information; income recognition; classification of investment property assets; treatment of financial assets (including embedded derivatives), etc.

(c)(2) FAQs

During 2010, the ISA’s staff published a clarification to FAQ 18, regarding the accounting treatment of debt settlements including the conversion of debt into stock or other equity instruments of the company. This clarification reconciles the requirements of the FAQ with the requirements of IFRIC 19, which was published this year.

In addition, the ISA staff revoked some FAQs, in an effort to eliminate redundancies between different sections of the annual or quarterly reports as part of its Reporting Improvement Project, as detailed under Section B above as well as in light of publications and clarifications published by the IFRS bodies. As part of this effort, two FAQs were revoked, as follows:

<table>
<thead>
<tr>
<th>FAQ</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAQ 14</td>
<td>Disclosure required in the board of directors’ report regarding the impairment of financial assets</td>
</tr>
<tr>
<td>FAQ 16</td>
<td>Disclosure required in the board of directors’ report regarding financial liabilities designated as at fair value through profit or loss.</td>
</tr>
</tbody>
</table>

(c)(3) Accounting enforcement decisions

Enforcement decisions made in 2010:

<table>
<thead>
<tr>
<th>Decision</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-1</td>
<td>Accounting for the impairment of intangible assets</td>
</tr>
<tr>
<td>10-2</td>
<td>Recognition of contingent assets</td>
</tr>
<tr>
<td>10-3</td>
<td>Significant influence in an investee</td>
</tr>
<tr>
<td>10-4</td>
<td>Buyer identification in a business combination transaction</td>
</tr>
<tr>
<td>10-5</td>
<td>The accounting treatment of the precollection of proceeds from clients</td>
</tr>
</tbody>
</table>

(c)(4) Auditing enforcement decisions

Enforcement decisions made in 2010:

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27 It should be made clear that the description in this report regarding positions published by the ISA’s staff does not include all the provisions and decisions underlying said position papers.
Disclosure in financial statements regarding material uncertainties which may cast a significant doubt as to a company’s ability to continue as a going concern and providing a going concern notice as part of the auditor’s opinion.

5. Audits and Outsourcing in the Corporate Finance Department

As part of its implementation of the ISA’s supervision and enforcement strategy, the Corporate Finance Department carries out audits of reporting companies. These audits are carried out, *inter alia*, under Section 56F of the Securities Law. According to this Section, audits of reporting companies may be carried out by persons who are not ISA employees, including accountants, lawyers, land appraisers and other professional service providers. These audits are aimed at examining whether the provisions of the Law have been met. Furthermore, they are intended to complement the Department’s ongoing supervision of reporting companies and reports issued by them, so as to promote transparency and fair disclosure and uphold investor interests.

In 2010, audits were conducted in companies - using both outsourced service providers and an ad hoc team comprising ISA employees – on issues such as corporate governance, valuations of real estate assets, as well as audits concerning material items in the financial statements (such as inventories, investment property, recognition of income, etc.).

In addition to auditing, the Corporate Finance Department uses, through outsourcing, lawyers and accountants for the purpose of performing its ongoing tasks, especially in examining prospectuses and annual reports, during peak seasons. This enables the Department to improve its efficiency in peak periods in relation to periods where the scope of the work is normal.

6. Underwriter Registry

In July 2007, a comprehensive reform of public offering procedures went into effect. It included, *inter alia*, a prohibition on issuing securities in a tender with a maximum price; the option of accepting non-uniform offerings, similar to those accepted in Western capital markets; the option to file a separate report, at a later date, in order to obtain a permit to issue a prospectus regarding the price and number of securities offered and thus reduce issuance expenses; and a comprehensive reform regarding underwriters’ powers and the extent and quality of reporting required of them.

From the moment the aforesaid reform went into effect, anyone wishing to act as an underwriter must first register with the Underwriters Registry, maintained by the ISA. The ISA is also authorized to strike underwriters from the Registry.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total no. of active underwriters</th>
<th>No. of foreign underwriters</th>
<th>No. of inactive underwriters</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>33</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>2009</td>
<td>28</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
<td>2</td>
<td>46</td>
</tr>
</tbody>
</table>
In 2010, four companies registered in the Underwriter Registry, of which one company registered as a foreign underwriter, as compared with one local company registered in 2009. In 2010, seven underwriters announced they were ceasing activity, as compared with six in the previous year.

7. **Dual Listing**

In November 2000, an amendment to the Securities Law went into effect, adding Chapter E3 concerning the dual listing of companies. Under the amendment and a later amendment from 2005, companies traded on the NASDAQ, NYSE, AMEX, or LSE Main Market, Primary Listing may be listed on the Tel Aviv Stock Exchange on the basis of reports identical to those filed by said companies abroad. According to the amendment, companies that were dual-listed when the amendment went into effect (hereinafter – dual listed companies) or companies to register for trade on the Tel Aviv Stock Exchange in the future, and subsequently on one of the aforementioned exchanges, may begin reporting in accordance with Chapter E3, provided a majority of shareholders (non-controlling) agree thereto.

According to the amendment, companies wishing to register for trade under Chapter E3 must have traded on a foreign exchange for a minimum of one year prior to their listing in Israel. An exception was made for companies whose market capitalization is at least USD 350 million. This amount was later amended so that the current requirement is a market capitalization of at least USD 150 million.

In the reporting year, five dual-listed companies were listed for trading on the Tel Aviv Stock Exchange (presently there are 48 dual listed companies on the Tel Aviv Stock Exchange), as compared with two companies in 2009 (for a total of 49 dual listed companies on the Tel Aviv Stock Exchange in 2009). In the reporting year, no companies made the transition to dual listing, as was the case in 2009. In 2010, two companies transitioned to non dual-listing reporting, the same as in 2009. In 2010, three dual listed companies were delisted from trade on the Tel Aviv Stock Exchange and continued to trade in the US only, as compared with four in 2009.

It should be noted that, in general, the provisions prescribed by the Securities Law apply to reporting under Chapter E3 both on civil and criminal levels. However, as far as the examination of reports is concerned, the ISA takes into consideration the fact that dual-listed companies are supervised by the SEC or the FSA, which implement some of the strictest supervision regimes in the world. This constitutes the basis for the ISA’s decision to grant concessions under Chapter E3, exercising its authority while taking into consideration the aforesaid. Therefore, in general, the ISA relies on the supervision of these foreign organizations. In addition, in accordance with Chapter E3, in cases where the ISA considers exercising its authority, it will first contact the SEC or FSA, as appropriate.

8. **XBRL**

Reporting companies are required to apply the XBRL reporting format beginning with the financial statements for the first quarter of 2008, the same date in which the first time application of IFRS became mandatory.

The ISA has opted to adopt the XBRL-IFRS taxonomy for some financial statements, including select notes. In addition, the adoption of the format for the statements and
notes, as well as for the field names and manner of presentation, was made in accordance with the IFRS Taxonomy as is.

In April 2010, an updated version of the XBRL Taxonomy for electronic reporting was launched. As a result, the ISA staff evaluated the need to update the existing reporting form and adjust it to the updated version. It was decided that in light of the many changes in IFRS, there was supreme significance in updating the reporting form and adjusting it to the updated 2010 version. In addition, it was decided to change the mandated reporting format in the reporting form and turn it into combined mandatory-voluntary reporting, as follows: In lieu of reporting, according to the mandated format, data included in the statement of financial position, statement of income, statement of cashflow, data from the segments note and select data from the notes to financial statements, corporations will be required to fill only the “bottom lines” of the main categories in each of the key components of the main financial statements (total current assets, total non-current liabilities, equity attributed to the parent company’s owners, total revenue, net profit/loss, etc.). Nevertheless, no material changes are expected in the reporting requirements for the cashflow data item and from the operating segments note, except for an update to the 2010 version. In addition, reporting companies shall be able to include a full voluntary report regarding the statement of financial position and statement of income in a scope and format similar to those of the existing form.

The completion of the reporting format and approval of the updated Israeli taxonomy by the International XBRL Consortium is expected to take place in 2011.

9. Financial Sanctions

Chapter H3 of the Securities Law, which provides for financial sanctions, authorizes the ISA to impose financial sanctions on reporting corporations, underwriters and principal shareholders for certain violations of the Law and Regulations. Under the law, the ISA is authorized to enact regulations detailing criteria for the reduction of financial sanctions under the Law. However, these have not yet gone into effect. Until they do, financial sanctions shall be imposed according to the amounts prescribed by the Law, as well as by Amendment 6 to the Law.

Under Section 520 of the Law, the ISA may impose financial sanctions on violators of any of the provisions specified in Amendment 5. The ISA collects the fines and transfers them to the State Treasury.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of financial sanctions</th>
<th>Amount of financial sanctions (in NIS millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>25</td>
<td>1.44</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td>2.25</td>
</tr>
</tbody>
</table>

The following is a list of violations for which financial sanctions were imposed: delinquent filing of financial statements; delinquent reporting of change in holdings of principal shareholders; delinquent filing of reports regarding the end of an external director’s tenure; delinquent filing of a report regarding the end of double tenure for a chairman of the board who also serves as CEO; delinquent filing of a report announcing that a corporation has been awarded an injunction; inadequate disclosure in the board

28 Chapter H3 of the Law regarding financial sanctions went into effect on October 1, 2007.
of directors’ report regarding the effectiveness of internal controls over financial reporting, etc.

In addition, two administrative petitions against ISA decisions to impose financial sanctions, filed with the Jerusalem District Court, were rejected by the Court, which accepted ISA’s position.

*The following table details the financial sanctions imposed during the reporting year:*

<table>
<thead>
<tr>
<th>Violating company</th>
<th>Grounds for imposing financial sanctions and manner of calculation</th>
<th>Sections violated [chapter and section of Amendment 5 to the Law]</th>
<th>ISA decision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Edri El Holdings Ltd.</strong></td>
<td>Delinquent filing of report regarding end of tenure of the chairman of the board, who also serves as CEO of the company. Fine amount: NIS 60,000 Continuing violation fine: NIS 117,600 Total: NIS 177,600</td>
<td>Section 36 of the Securities Law, Regulation 34 of the Securities Regulations (Periodic and Immediate Reports) [requiring approval under Section 95 of the Law and Section 121(c) of the Companies Law]</td>
<td>Decision dated: June 16, 2010 Total fine of NIS 30,000</td>
</tr>
<tr>
<td><strong>Euro Sat Investments Ltd.</strong></td>
<td>Delinquent filing of Q3/2009 financial statements. Fine amount: NIS 60,000 Total: NIS 60,000</td>
<td>Section 36 of the Securities Law, Regulation 39 of the Securities Regulations (Periodic and Immediate Reports) [Chapter A, Section 3]</td>
<td>Decision dated: March 24, 2010 Total fine of NIS 60,000</td>
</tr>
<tr>
<td>Company</td>
<td>Violation Description</td>
<td>Relevant Legislation</td>
<td>Decision Date</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Africa Israel Residences Ltd.</td>
<td>Publication of erroneous information in an immediate report announcing a change in the holdings of a principal shareholder in the company regarding the “date of change” in the principal shareholder’s holdings, the circumstances under which the “date of change” in the corrected report was changed, thus mirepresenting the fact that the company was no longer on the Tel Aviv 100 Index.</td>
<td>Section 36 of the Securities Law and Regulation 33(a) of the Securities Regulations (Chapter A, Section 3)</td>
<td>November 24, 2010</td>
</tr>
<tr>
<td>Exalenz Bioscience Ltd.</td>
<td>Failure to report a change in the holdings of principal shareholders.</td>
<td>Section 37 of the Securities Law, Regulations 33(a) and 30(a) of the Securities Regulations (Periodic and Immediate Reports)</td>
<td>March 24, 2010</td>
</tr>
<tr>
<td>Arad Ltd.</td>
<td>Failure to report financial details of an acquired operation.</td>
<td>Section 36 of the Securities Law, Regulations 36, 33(a1) of the Securities Regulations (Periodic and Immediate Reports)</td>
<td>March 24, 2010</td>
</tr>
<tr>
<td>Arazim Investments Ltd.</td>
<td>Delinquent filing of Q2/2009 financial statements</td>
<td>Section 36 of the Securities Law, Regulation 39 of the Securities Regulations (Periodic and Immediate Reports)</td>
<td>March 24, 2010</td>
</tr>
<tr>
<td>Eshel Shekel Bonds Ltd.</td>
<td>The Company’s 2009 annual financial statements were filed without disclosure of a report regarding the effectiveness of</td>
<td>Section 36 of the Securities Law, Regulation 9(b) of the Securities Regulations</td>
<td>March 24, 2010</td>
</tr>
</tbody>
</table>
internal control over financial reporting, in accordance with Section 9(b) of the Securities Regulations  
Fine amount: NIS 15,000  
Continuing violation fine: NIS 4,200  
Total: NIS 19,200  
Delinquent reporting by principal shareholder to the company regarding having become a principal shareholder and change in holdings.  
Fine amount: NIS 3,000  
Continuing violation fine: NIS 21,000  
Total: NIS 24,000  
Principal shareholder party in Telkoor Telecom Ltd.  
Section 37(a) of the Securities Law and Regulation 3 of Notice by Principal Shareholder Regulations, as detailed in Section 52p(b) of the Law.  
Decision dated: November 24, 2010  
Total fine of NIS 24,000  
Danirco Ltd.  
Delinquent filing of Q3/2009 financial statements.  
Fine amount: NIS 15,000  
Continuing violation fine: NIS 67,800  
Total: NIS 82,800  
Section 36 of the Securities Law, Regulation 39 of the Securities Regulations (Periodic and Immediate Reports)  
Decision dated: March 24, 2010  
Total fine of NIS 82,800  
Danshar (1963) Ltd.  
1. Delinquent filing of report regarding shareholders’ objection to approval of a transaction under the Companies Regulations (Concessions for Transactions with Principal Shareholder).  
   Fine for each violation: NIS 30,000; total: NIS 60,000  
   Continuing violation 1 fine: NIS 7,200  
   Continuing violation 2 fine: NIS 58,800  
   Total: NIS 126,000  
2. Delinquent filing regarding the end of tenure of an external director.  
Section 36 of the Securities Law, Regulation 39 of the Securities Regulations (Periodic and Immediate Reports)  
Decision dated: November 24, 2010  
Total fine of NIS 126,000  
Israel Electric Company Ltd.  
Delinquent filing of 2009 annual financial statements.  
Section 36 of the Securities Law,  
Decision dated: June 16, 2010
Matis Capital Ltd.

Failure to provide an update in an immediate report regarding a material development in material negotiations conducted by the Company.

Fine amount: NIS 60,000
Continuing violation fine: NIS 120,000
Total: NIS 180,000

Decision dated: November 24, 2010
Total fine of NIS 180,000

Malrag Engineering and Construction Ltd.

1. Missing detail in Q1/2009 financial statements
2. Missing detail in Q2/2009 financial statements

1. Fine amount: NIS 30,000
Continuing violation fine: NIS 243,600
2. Fine amount: NIS 30,000
Continuing violation fine: NIS 134,400
3. Fine amount: NIS 30,000
Continuing violation fine: NIS 20,400
Total: NIS 488,400

Decision dated: March 24, 2010
Total fine of NIS 488,400

Maariv Holdings Ltd.

Publication of information in a news story, which constitutes an offering to the public not by way of prospectus and which allegedly motivates the public to purchase the Company’s securities.

Fine amount: NIS 30,000
Total: NIS 30,000

Decision dated: June 16, 2010
Total fine of NIS 30,000

Pai Underwriting Ltd.

Delinequent filing of an underwriter’s annual report.

Fine amount: NIS 5,000
Continuing violation fine: NIS 120,000
Total: NIS 125,000

Decision dated: November 24, 2010
Total fine of NIS 125,000
<table>
<thead>
<tr>
<th>Company</th>
<th>Fine Amount</th>
<th>Total</th>
<th>Section Reference</th>
<th>Decision Dated</th>
<th>Total Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petro Group Ltd.</td>
<td>12,500</td>
<td>NIS 93,600</td>
<td>Section 36 of the Securities Law, Regulation 7 of the Securities Regulations (Periodic and Immediate Reports)</td>
<td>November 24, 2010</td>
<td>NIS 93,600</td>
</tr>
<tr>
<td>R.H. Technologies Ltd.</td>
<td>120,000</td>
<td>NIS 120,000</td>
<td>Section 36 of the Securities Law and Regulation 9 of the Securities Regulations (Periodic and Immediate Reports)</td>
<td>June 16, 2010</td>
<td>NIS 120,000</td>
</tr>
</tbody>
</table>
V  Investment Department

A. MUTUAL FUNDS

1. General

As of the end of 2010, the number of mutual funds stood at 1,247, all open-end funds. During the year, 126 new open-end mutual funds were created. 81 funds ceased operations, of which three were liquidated, with the rest being merged with other mutual funds; one fund is still under liquidation procedures.

As of the end of the reporting year, there were 27 active mutual fund managers (five ceased operations and one was added), as compared with 31 managers in 2009. As of the end of 2010, the number of active mutual fund trustees stood at seven, the same as the previous year. The decrease in the number of fund managers stems from the continued trend towards mergers in this sector. Nevertheless, the trend did not manifest itself in the number of funds under management. The above figures show that although the number of entities active in this area has decreased, the number of funds offered to the public continued to grow this year, with the size of funds (as is evident in table 16 hereunder) having increased as well.

The value of assets under management by mutual funds as of the end of 2010 totaled NIS 156.6 billion, as compared with NIS 133.2 billion as of the end of 2009 (please see table 16). This year marked an all time record regarding the value of assets under the management of mutual funds: As of December 7, 2010, the figure stood at NIS 159.7 billion. This increase in the value of assets stems mostly from mutual fund offerings (excess originations), which reached approximately NIS 16.05 billion, and partly from an increase in the value of assets held by mutual funds.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of funds</th>
<th>Value of assets (in NIS billions)</th>
<th>Average fund size (in NIS millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1035</td>
<td>111.8</td>
<td>108</td>
</tr>
<tr>
<td>2007</td>
<td>1167</td>
<td>120.4</td>
<td>103</td>
</tr>
<tr>
<td>2008</td>
<td>1185</td>
<td>98.1</td>
<td>83</td>
</tr>
<tr>
<td>2009</td>
<td>1202</td>
<td>133.2</td>
<td>111</td>
</tr>
<tr>
<td>2010</td>
<td>1247</td>
<td>156.6</td>
<td>126</td>
</tr>
</tbody>
</table>

2. Permits to hold means of control in fund managers and licensing of fund managers and trustees

Permit applications are handled pursuant to the Permits to Hold Means of Control in Fund Managers and Licensing of Fund Managers Procedure, available on the ISA website. Eleven applications for permits to hold the means of control in a fund manager, while permits are personal and given to each holder separately.

29 The correct number of managers for 2009.
30 In current prices.
31 The number of permits was larger, as applications are generally filed jointly for all holders of a fund manager, while permits are personal and given to each holder separately.
manager were handled and approved during the reporting year; some were applications by new entities to purchase the means of control in existing fund managers, while the majority were applications for amending the terms of an existing permit following structural changes in the holding group, or following the merger of investment firms. Banks filed two applications for permits to hold means of control as collateral within the meaning thereof under Section 23B(e) of the Joint Investment Trust Law of 1994 (hereinafter - the Mutual Funds Law).

During the reporting year, one application to approve a fund manager was filed.

Applications by companies to act as trustees for fund managers are handled pursuant to the Mutual Fund Trustee Approval Procedure, which is also available on the ISA website. During the reporting year, no applications to approve companies as fund managers were filed.

3. Prospectuses

a. Granting permits to publish prospectuses

The prospectus of an open-end mutual fund remains valid for a period of up to twelve months from the date of publication. In order to ensure continuity in the offering of mutual fund units to the public, fund managers must publish a prospectus at least once a year.

In 2010, Joint Investment Trust Regulations (Details of Trust Fund Prospectus, its Form and Structure) of 2009 became effective, under which the format of fund prospectuses was altered (please see section 3b below).

In 2010, 1,269 permits to publish prospectuses were granted, 126 of which were for prospectuses of mutual funds offering their units to the public for the first time (as compared with 1,222 permits in 2009, of which 161 were for mutual funds offering their units to the public for the first time). In addition, permits were granted for the publication of 28 prospectuses for fund managers (Part B of Fund Prospectus).

b. Implementing the Joint Investment Trust Regulations (Details, Structure and Form of a Prospectus) of 2009 (hereinafter - Prospectus Details Regulations)

The new regulations apply to prospectuses dated July 2, 2010 and later. Most changes in the Regulations pertain to the structure of the prospectus; adjustment of information contained therein to changes which have occurred in the capital market and activity of mutual funds; additional information required in the prospectus; as well as extension of the period for which information is provided. However, the new Regulations have rendered prospectuses shorter and more “user friendly” to the investing public.

4. Reports

a. During 2010, trustees and fund managers filed 30,057 reports (as compared with 30,204 reports in 2009), according to the following breakdown:

32 The number pertains to public reports alone (reports issued to the public) and does not included non-public reports.

33 A reporting on separate events occurring in a number of funds, which was consolidated in one form for the sake of convenience, is counted as a number of reports.
b. The application of Joint Investment Trust Regulations (Reports) (Revised) of 2009 (hereinafter – the Report Regulations)

On October 12, 2009, the Reports Regulations were published in the Official Gazette, coming into effect at the same time as the Prospectus Details Regulations (on July 2, 2010). The change in the Regulations is a requirement for funds to file annual reports, in prospectus format, in cases set forth by the Regulations.

c. The application of Joint Investment Trust Regulations (Financial Statements of Trust Funds) of 2009 (hereinafter – the Financial Statements Regulations)

The Regulations were published in the Official Gazette on December 10, 2009, and came into effect on June 10, 2010. The Regulations superseded the Joint Investment Trust Regulations (Preparation of Annual Reports) of 1970, and applied IFRS as well as additional requirements.

The former regulations required mutual funds to submit, inter alia, their financial statements using a rigid structure defined in the Amendment to the regulations. Over the years, as generally accepted accounting principles evolved, a gap formed between the former regulations and accepted practice as regards the financial statements of mutual funds. In addition, the regulations did not include an independent filing requirement. Reports were filed as part of prospectuses, and when a prospectus was not published, neither were the financial statements. Hence arose the need to replace them.

d. Additional reporting-related actions during 2010:

1. The ISA exercised its authority under Regulation 22(a) of the Joint Investment Trust Regulations (Reports) of 1994 to amend the structure of the monthly report.

2. The ISA published a staff bulletin for fund managers and trustees containing clarifications as regards coordinated transactions and off-exchange transactions. The staff bulletin clarifies the issue of reporting coordinated transactions and off-exchange transactions, after having found that reports are not transmitted on time, as required by law, and include errors.

3. After the Joint Investment Trust Regulations (Financial Statements of Trust Funds) of 2009 came into effect, the ISA staff received a number of queries regarding a lack of clarity on several issues related to the Financial Statements of Trust Funds Regulation and difficulties in applying related regulations. The ISA staff decided to clarify these issues in a staff bulletin addressed to fund managers and trustees.

4. Publication of a clarifications staff bulletin addressed to investment intermediaries, regarding the manner in which they are required to provide information identifying trading activity on the Tel Aviv Stock Exchange by means of MAGNA forms.
5. Fund manager participation in general meetings

Section 77 of the Law requires fund managers to participate and vote in general meetings of a corporation the securities of which are held by their fund, if the meetings are called to approve decisions that may harm the interests of unit holders, including approval of transactions with principal shareholders, and proposals that may favor the interests of unit holders.

Section 77(c) of the Law requires fund managers that participated in such general meetings to submit a report to the ISA and the Stock Exchange regarding their vote at the meeting.

Table 17 below includes data regarding the participation rate of fund managers in general meetings in which they are required by law to participate and vote. 34

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of meetings</th>
<th>Participation by less than 30% of managers</th>
<th>Participation by 30% to 70% of managers</th>
<th>Participation by more than 70% of managers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of meetings</td>
<td>Rate</td>
<td>No. of meetings</td>
<td>Rate</td>
</tr>
<tr>
<td>2006</td>
<td>547</td>
<td>121</td>
<td>88</td>
<td>16.1%</td>
</tr>
<tr>
<td>2007</td>
<td>785</td>
<td>177</td>
<td>112</td>
<td>14.3%</td>
</tr>
<tr>
<td>2008</td>
<td>548</td>
<td>57</td>
<td>145</td>
<td>26.5%</td>
</tr>
<tr>
<td>2009</td>
<td>705</td>
<td>91</td>
<td>212</td>
<td>30.1%</td>
</tr>
<tr>
<td>2010</td>
<td>1,005</td>
<td>20</td>
<td>135</td>
<td>13.4%</td>
</tr>
</tbody>
</table>

Data included in Table 17 indicate that over the years, mutual fund managers have become increasingly involved in the decision making process of reporting entities in general meetings.

34 In the absence of data regarding Securities held by mutual funds during the course of the month, the assumption was that if a fund held the security at the end of the previous month for the purpose of determining participation in the general meeting, as well as at the end of the month in which the general meeting was held constitutes holding the security at the date of the general meeting.
6. Onsite audits of mutual fund managers

During 2010, the ISA audited mutual fund managers as follows:

a. Six field audits of mutual fund managers were conducted by Investment Department staff members and external auditors. The audits focused on the following issues: the control environment, management and control of investments, revaluation of securities, etc.

b. Fund managers were required to report to the ISA regarding the application of recommendations issued following audits conducted in 2009.

c. Cross-sectional audits (by correspondence):

1. A cross-sectional audit of all fund managers was conducted, focusing on investment management and the use of distribution accounts (this audit began in 2009). Following the analysis of the audit results, the Department
issued a staff bulletin to fund managers and trustees regarding the ISA’s position on a number of issues related to the findings of the cross-sectional audit on the subject of investments management and the use of distribution accounts.

2. The Department conducted a cross-sectional examination with all fund managers and trustees regarding disparities in the collection of manager and trustee fees. Following the findings of the examination, the Department issued a staff bulletin to fund managers and trustees regarding the ISA staff’s position on the provision dealing with the basis for computing the fees of fund managers and trustees. The ISA later issued a directive under Section 97(b) of the Joint Investment Law regarding the basis for computing fund manager and trustee fees.

5. The Department began a cross-sectional audit of all fund managers on the issue of remuneration of investment managers and senior officers.

d. The Department reviewed securities activities carried out by fund managers, by analyzing transactions pointed at by current irregular activity reports, audits of particular managers, as well as cross-sectional audits focused on specific issues.

7. Supervision of mutual fund trustees

The ISA increased supervision of fund trustees, as part of the overall reinforcement of its supervision over mutual funds. The ISA:

a. Conducted visits in trustees’ offices, in which the ISA staff reviewed various aspects of trustees’ activities, including the demonstration of systems and modes of operation employed by the trustees.

b. Examined the manner in which trustees fulfilled the requirement to conduct audits with fund managers under their trusteeship.

c. Examined how fund trustees reacted to lapses by fund managers.

d. Performed both broad and spot inspections of trustees to examine various issues which arose during routine supervision of fund managers.

e. Followed-up on trustees’ quarterly reports.

f. Cooperated with the Association of Trustees on various issues.

g. Conducted a cross-sectional examination with all fund trustees regarding disparities in the collection of trustees’ fees.

8. Regulation activities

In 2010, the Investment Department drafted and promoted bills and legislative amendments, as follows:

a. Primary legislation

1. Joint Investment Trust Law (Amendment 14) of 2009 – amended Section 69 of the Law regarding tender for engagements entered into with trading entities. The Amendment is scheduled to go into effect on February 16, 2011 or on the date in which the rules under Section 69(c)(1) and (f) go into effect, the later of the two. The rules were published on the ISA website and submitted to the approval of the Knesset Finance Committee.
2. Joint Investment Trust Bill (Amendment 15) of 2010 - this bill, addressing a large number of issues, passed its first reading in the Knesset on June 14, 2010.

3. Joint Investment Trust Bill (Amendment 16) of 2010 deals with the regulation of ILNs and ILN funds. Legislative draft published on November 16, 2010.

(For further details, please see Chapter VII, under Proposed Primary and Secondary Legislation.)

b. Regulations

During the year, the following regulations were published: Joint Investment Trust Regulations (Details of Trust Fund Prospectus, its Form and Structure) of 2009 [Kovetz HaTakanot (Collection of Regulations) 6834, p. 192]; Joint Investment Trust Regulations (Reports) (Amendment) of 2009 [Kovetz HaTakanot (Collection of Regulations) 6834, p. 229]; Joint Investment Trust Regulations (Financial Statements of Mutual Funds) of 2009 [Kovetz HaTakanot (Collection of Regulations) 6834, p. 230].

In addition, the following proposed regulations were approved by the ISA Plenum during the year:

1. Joint Investment Trust Regulations (Participation of Fund Managers in Shareholders’ Meetings and Voting to Approve a Special Purchase Offer) of 2010;

2. Joint Investment Trust Regulations (Reports) (Amendment) of 2010;

3. Amendment of regulations regarding funds of funds. The proposed amendments will be made by way of a series of regulations:

   (a) Joint Investment Trust Regulations (Assets that may be Bought and Held by a Fund and their Maximum Amounts) (Amendment) of 2010;

   (b) Joint Investment Trust Regulations (Sale and Purchase Prices of Fund Assets and Value of Fund Assets) (Amendment) of 2010;

   (c) Joint Investment Trust Regulations (Details of Trust Fund Prospectus, its Form and Structure) (Amendment) of 2010;

(For further details, please see Chapter VII, under Primary and Secondary Legislation Passed or Approved in 2010.)

c. Directives under Section 97(b) of the Law

Section 97(b) of the Joint Investment Law authorizes the ISA to issue directives regarding the operation and management of fund managers and trustees, of officers therein, and of any person employed thereby. This authority is aimed at guaranteeing the proper management of fund managers and trustees and safeguarding unitholder interests. During the year, the ISA issued the following directives:

1. Directive to mutual fund managers regarding fund names disclosing possible exposure to non-investment grade bonds: One of the lessons of the financial crisis was that certain bonds embody risk which is not significantly lower than the risk which characterizes investment in shares. As a result, the ISA issued a directive for the purpose of improving disclosure provided by funds, as
expressed in funds’ names, investment policies and publications, regarding their possible exposure to non investment grade bonds. According to the directive, a fund manager managing a fund whose maximum exposure rate to aforesaid bonds is greater than its maximum rate of exposure to shares (as expressed in the fund’s exposure rate to shares), should add – next to the exposure profile of the fund, as part of its name – an exclamation mark in parentheses: “(!)”, the purpose of which is to inform investors of the possibility that the fund may be exposed to bonds as aforesaid, at a rate higher than its maximum exposure to shares. If a fund manager chooses not to add an exclamation mark to the name of a particular fund under its management, it shall be regarded as if it has adopted, as part of its investment policy, a commitment that the fund shall not create an exposure to aforesaid bonds at a rate higher than its maximum exposure rate to shares.

2. **Directive to fund managers regarding the calculation of fund manager and trustee fees:** According to Section 5(a)(12) of the Law, the fees of fund managers and trustees are to be determined by the mutual fund agreement. The Law does not determine the fees and the basis for their calculation. Nonetheless, in accordance with the accepted practice, the aforesaid fees were determined as a percentage of the net value of the fund’s assets. Reviews conducted by the ISA staff show a lack of uniform basis for calculating fund manager and trustee fees. In light of the aforesaid and for the sake of improving transparency and comparability in this respect, the directive determined that the fees of fund managers and trustees shall be presented as a percentage of the net value of the fund’s assets, as defined by the Law (the value of the fund’s assets less its liabilities). As a result, trustees can no longer charge a fixed minimum fee.

3. **Directive to fund managers regarding disclosure of the manner of selecting and managing investments:** This directive requires fund managers to provide disclosure, in prospectuses, regarding the processes, information and grounds guiding them to ensure proper conduct in selecting and managing investments by funds under their management (as opposed to imposing a requirement to set such a policy). The purpose of this information is to create adequate and transparent measures for the proper and qualitative conduct in this field, which is required of entities bound by the duties of trust and care towards the public whose funds they manage.

d. **Staff and plenum decision bulletins**

The Investment Department issues staff bulletins, in which it states its opinion as regards interpretations of statutory provisions on general matters pertaining to certain entities or to the market in general. These bulletins concern statutory provisions which, in the Investment Department’s opinion, are not sufficiently clear, require additional clarification, or are general in nature and so require specification. During the reporting year, the Investment Department issued ten staff bulletins to mutual fund managers and/or trustees regarding various issues pertaining to the Mutual Funds Law.

In 2010, a staff bulletin was issued regarding the ISA’s decision concerning the format for newspaper announcements as regards the reception of permits for publishing prospectuses, under its authority as per Section 31(b) of the Joint
Investment Law. The format of the announcement was reduced, and shall no longer include the full cover of the prospectus as previously required.

e. Pre-rulings

The Investment Department receives pre-ruling requests, usually by supervised entities seeking the ISA's position on the implementation of statutory provisions in certain forward-looking cases. The Investment Department also receives no-action requests due to deviations from statutory provisions in certain forward-looking cases. Beginning July 1, 2007, such requests are subject to the ISA's pre-ruling procedure, which appears on the ISA website. In addition, the ISA accepts general requests to clarify its interpretation of various legal issues. During the reporting year, 21 pre-ruling requests concerning the Mutual Funds Law were received by the Investment Department. One request is still pending.

f. FAQs

During the reporting year, the ISA staff continued to publish, on an ongoing basis, answers to questions addressed to it by supervised entities in the mutual funds sector. In 2010, the staff decided to publish on its website answers to 24 of all questions addressed to it on a variety of subjects, so as to promote transparency vis a vis supervised entities and clarify their legal environment.

g. Statistical data regarding the fees of mutual fund managers in Israel

During the year, the ISA staff began to publish information regarding average salaries in mutual funds, according to the funds’ classifications.  

9. Enforcement measures concerning fund managers

a. Civil fines

Under Section 114 of the Law, violators of any of the provisions of that Section shall be subject to civil fines. The ISA collects the fines and transfers them to the State Treasury. Section 117(b)(2) of the Mutual Funds Law grants the ISA the authority to waive fines on violations of Sections 114 and 115 of the Law in certain exceptional cases.

During 2010, the ISA imposed fines on 12 fund managers and one trustee for 15 violations of the Law (please see Table 18). During the reporting year, the ISA did not exercise its authority under Section 117(b)(2) of the Law.

Table 18 details, inter alia, the types of violations for which fines were imposed during the reporting year:
Table 18: Violations for which fines were imposed in 2010, including sections violated and fine amounts

<table>
<thead>
<tr>
<th>Company</th>
<th>Violation for which fine was imposed</th>
<th>Sections of Mutual Funds Law violated</th>
<th>Fine amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dash Mutual Funds Ltd.</td>
<td>Violated Section 61 of the Law: Deviated from the fund’s investment policy, and during part of the deviation period, the deviation exceeded the net value of the fund’s assets.</td>
<td>Section 114(c)(4)(b) of the Law.</td>
<td>NIS 172,800</td>
<td>July 28, 2010</td>
</tr>
<tr>
<td>2. Ramco mutual fund management (1989) Ltd.</td>
<td>Violated Section 22(2) of the Law: The CEO of the fund manager was involved in managing the fund manager’s own investment portfolio (own account), as well as in making management decisions regarding the investment portfolio of a fund managed by the fund manager.</td>
<td>Section 114(b)(2a) of the Law.</td>
<td>NIS 86,400</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td>3. Poalim Trust Services Ltd.</td>
<td>Violated Section 78(a) of the Law: Violated a trustee’s duty to supervise the meeting of a fund manager’s commitments as per a prospectus.</td>
<td>Section 114(c)(8) of the Law.</td>
<td>NIS 172,800</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td>4. Mercantile mutual funds Ltd.</td>
<td>Violated Section 64 of the Law: Invested in derivatives in a number of funds under its management, without written authorization by the investment board.</td>
<td>Section 114(b)(13) of the Law.</td>
<td>NIS 86,400</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td>5. Kivun Trust Funds Management Ltd.</td>
<td>Violated Section 22(2) of the Law: CEO of the fund manager was involved in managing the fund manager’s own investment portfolio (own account), as well as in making management decisions regarding the investment portfolio of a fund managed by the fund manager.</td>
<td>Section 114(b)(2a) of the Law.</td>
<td>NIS 86,400</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td>6. Alumot-Sprint Mutual Funds management Ltd.</td>
<td>1. Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>1. Section 114(b)(10a) of the Law.</td>
<td>NIS 172,800</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td></td>
<td>2. Violated Section of the Law.</td>
<td>2. Section 114(b)(13) of the Law.</td>
<td>NIS 86,400</td>
<td>October 20, 2010</td>
</tr>
</tbody>
</table>

The fund manager announced in a report dated October 18 that as of the same date it has ceased to serve as fund manager.
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Violation Description</th>
<th>Section of the Law</th>
<th>Monetary Amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Edmond de Rothschild Mutual Funds Management Ltd.</td>
<td>Violated Section 73(a) of the Law: Trustee did not authorize content published by the fund manager on its website regarding a number of funds under its management.</td>
<td>Section 114(b)(16) of the Law.</td>
<td>NIS 86,400</td>
<td>October 20, 2010</td>
</tr>
<tr>
<td>8</td>
<td>Altshuler Shaham Funds Management Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>9</td>
<td>Tamir Fishman Mutual Funds Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>10</td>
<td>Dash Mutual Funds Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>11</td>
<td>Epsilon Trust Funds Management (1991) Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>12</td>
<td>Helman Aldubi Trust Funds Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>13</td>
<td>Meitav Mutual Fund Management (1982) Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
<tr>
<td>14</td>
<td>Menorah Mivtachim Mutual Funds Ltd.</td>
<td>Violated Section 60 of the Law: Conducted material transactions without prior approval by the mutual fund’s board of directors or one of its boards.</td>
<td>Section 114(b)(10a) of the Law.</td>
<td>NIS 86,400</td>
<td>December 28, 2010</td>
</tr>
</tbody>
</table>
board of directors or one of its boards.

b. Judicial proceedings involving the ISA

Miscellaneous Civil Appeal 274-09 Nova Star Trust Fund Management Ltd. vs. ISA: The court struck a petition filed by Nova Star regarding a civil fine imposed on it, after the Appellant abandoned proceedings following the Company’s liquidation.

B. INDEX-LINKED NOTES (ILNS)\(^{36}\)

1. General

In 2010, there were seven groups of companies issuing ILNs in the local market. The said groups acted through 32 different ILN companies.

During the year, these companies issued 85 new ILN series and 68 were repaid (49 series of which were covered warrants). At the end of the year, the total number of ILN series reached 437.

Chart 3: No. of ILN series

The value of public holdings of ILNs reached NIS 57.7 billion as of the end of 2010, as compared with NIS 49.2 billion as of the end of 2009, an increase of 17% (NIS 8.5 billion). This increase in public holdings resulted, in part, from positive accumulation (approximately NIS 4.4 billion) and partly from increases in the value of the series’ underlying assets.

Index Linked Notes (ILNs) is currently the accepted term for a group of assets which include ILNs, covered warrants, short certificates, commodity certificates, various complex certificates and deposit certificates, most of which are classified in the Stock Exchange Rules and Regulations as “index products”.

As part of placing this area under supervision, a legal term, “ILN” shall be set, which shall include all of the abovementioned products, to be regulated, along with mutual funds, under the Joint Investment Trust Law.
2. Prospectuses

ILN firms usually operate under shelf prospectuses. Shelf prospectuses are valid for a period of two years from the date of their publication. The main advantage of shelf prospectuses is that following their approval, the issuer may issue the products included in the prospectus without the need for additional approval from the ISA. The offering can therefore be made within a very short time – even a few days. The ILN market is comprised of a small number of issuers, and therefore, competition is fierce. Firms are required to issue new ILNs often, due to strong demand. The use of shelf prospectuses enables companies to meet market demand swiftly, almost immediately, and thus, most companies choose to operate under shelf prospectuses.

In 2010, the ISA approved two shelf prospectuses, as compared with ten in 2009. The small number of new shelf prospectuses is due to the fact that most firms have shelf prospectuses which have been in effect since 2009, and are due to expire in 2011.

During the reporting year, 13 revisions were made to shelf prospectuses, as compared with 11 such revisions in 2009, and 63 shelf offerings were issued, as compared with 94 such offerings in 2009. The prospectus revisions made this year were more complex than those made in the past. As a result, many inputs were needed for each revision and the average handling period was longer. Prospectus revisions included, inter alia, adding series that track new foreign indexes, change of complex mechanisms (such as participation fees) and the extension of ILN series.

As part of handling the prospectuses, the Department staff examined the disclosure contained in the economic summary, and the application therein of disclosure requirements regarding economic and other details about indexed products. It should be noted that the economic summary may be found on the firms’ websites, as part of prospectuses of offerings as well as in annual reports. The staff examined – inter alia – whether economic summaries meet the aforesaid disclosure requirements; the staff also examined trust deeds, placing emphasis on the rights and duties stemming from them, and extended disclosure requirements regarding credit risks, market risks and operational risks.
3. **Trustees**

There are eight active ILN trustees in the local market. During the year, the Department staff examined the activity of trustees in this area. The staff sought to strengthen the position of trustees, emphasizing the need to create vehicles that would assist them in fulfilling their roles directly, without relying on information issued by ILN firms.

ILN trustee firms have set up an infrastructure enabling direct connectivity between their IT systems and the backing accounts of ILN series in banks. This move was completed, and presently all trustee firms have such an infrastructure. Trustees are presently trying to establish a system for the computerized processing and analysis of data received directly from banks.

4. **Reports**

ILN managers report to the public and the ISA in accordance with the Securities Law and Regulations, by using the MAGNA website. The ISA follows these reports and examines whether the firms meet their disclosure requirements. The Department staff examined, *inter alia*, annual, quarterly and immediate reports, as well as prospectuses and shelf offerings.

As part of reviewing the reports, the staff placed emphasis on the adequate disclosure of financial risks embodied in ILN activity. ILN firms are required, in accordance with the ISA’s directives as well as with IFRS 7, to provide in their financial statements detailed disclosure regarding the risks embodied in their activity. Following the aforesaid review, financial statements of such firms must include detailed disclosure regarding market and credit risks, audited by an independent auditor.

In addition to these reports, ILN firms publish specific reports, such as:

1. A daily report which includes information regarding the valuation of ILN and indexed products (Form T124) – a report published daily, prior to the beginning of trading, by each ILN firm. The report includes information for the purpose of evaluating ILNs.

2. A monthly report regarding credit risk exposure (form T203) – the report includes data on managing entity-level and issuer-level credit risk exposure, for every ILN series, with details about the nature of exposure to each credit risk source – deposits, notes, derivatives, lending of securities, ILNs, etc.

3. A monthly report regarding public holdings (Form T204) – detailing the value of public holdings, separately for every ILN series as well as for all series combined. The report also includes each series’ classification and exposure profile.

4. During 2010, ILN managers filed 5,833 reports (as compared with 10,434 reports in 2009 and 7,478 reports in 2008).
5. Enhancement of ongoing disclosure and development of audit mechanisms

During the reporting year, the Department staff extended disclosure requirements and developed control mechanisms, as follows:

(a) On February 3, 2010, the ISA published a directive regarding credit risk, market risk and public holdings of financial instruments. According to the directive, firms offering indexed products to the public are required to publish monthly, quarterly and annual reports regarding the value of public holdings of financial instruments, market risks, including a report regarding value at risk (VaR) and extreme scenarios, as well as credits risks, including data regarding CDS of the financial entities to which the firm is exposed to, their rankings and data regarding coverage notes. The report contains series-level exposure to credit risks (financial entities), with details regarding the manner of exposure (deposits, lending of securities, derivatives etc.) to each credit risk source. As a result, investors can evaluate the risks to which an ILN manager is exposed in terms of all of its ILN series combined or a single series.

(b) On February 3, 2010, SLB 107-04 was published, regarding reporting on financial instruments. The SLB made it clear that in every report regarding series of indexed products, the reporting entity is required to provide identifying details about the reported series, so as to facilitate the identification of the reported series by investors. Presently, all ILN companies report uniformly according to the identification requirements clarified in the SLB.

(c) During the reporting year, the Department began developing MAGNA forms specifically for ILNs, with the aim of enabling the public to receive information that ILN issuers are required to provide in a more extensive and accessible format. As part of this move, the Department began developing a format which will include all information needed for each ILN (an “ILN identification form”). In addition, the ISA staff is planning to make a technical change in reporting: from PDF files to TXT files, which will enable users to extract data and process them by means of electronic sheets and data analysis software. The Department intends to apply these technical changes to a number of forms used by ILN issuers.
(d) The Department staff continued to enhance and adjust disclosure provided as part of the general summary included in offering prospectuses as well as in annual reports, in accordance with the disclosure directive on economic and other details of indexed products. During the reporting year, the economic summary was adjusted to the nature of products issued.

(e) In order to set up a groundwork for supervision over index product managers regarding the fulfillment of their lawful duties, and in order to improve the auditing of trading, indexed products managers were required to file with the ISA reports including details which will enable the identification of trading activities performed by them on the Stock Exchange, i.e. the identification by name of identity numbers of series under their management, own accounts and other accounts used by them while trading in ILNs on the Stock Exchange. In addition, a computerized infrastructure enabling the use of such data has been set up.

(f) During the reporting year, a “financial instruments website” was set as part of the ISA website, the aim of which is to focus on all ILN-related issues. The website includes all legislation and proposed legislation, pre-rulings, SABs and SLBs on this subject.

6. Audits of ILN Managers

During 2010, the ISA audited ILN managers as follows:

(a) In-depth audits of two ILN firms. The audits included risk management and corporate governance issues. Both audits are in their final stages.

(b) One in-depth audit in one of the ILN groups of companies. As part of the audit, the staff examined the activities of group companies as regards overseas bank deposits. Inter alia, it examined: The processes for decision making, risk management and drawing conclusions in these companies; the relationships between the companies and their trustees and trustees’ conduct; information and documents provided by the companies to the ISA, including inquiries and reviews conducted, as well as the companies’ reports on these issues.

7. Regulation Activities

a. Primary legislation

During 2010, the Department staff began preparing for changes expected in the ILN sector following the publication of the Joint Investment Trust Law (Amendment 16) of 2010 memorandum. The staff prepared, inter alia, a work plan, and began preparing the MAGNA system for reports, as well as preparing special forms.

(For further details, please see Chapter VII, under Proposed Primary and Secondary Legislation.)

b. Supervision model

During the past two years, the Staff has been engaged in developing a supervision model for the ILN sector. The supervision model is based on a number of elements, including: Capital requirements, requirements concerning market and credit risk management, as well as corporate governance rules. The following are the main principles behind the supervision model:
(a) Moving onto a regulated regime – regulating the ILN sector under the Joint Investment Trust Law (Amendment 16). This constitutes a move from a disclosure regime to a supervision and regulation regime, applying the rules of mutual fund corporate governance and strengthening the position and responsibility of trustees. As part of this process, assets backing ILNs for investor ownership will be held by trustees, and ILN managers will only be liable for the difference between the value of assets held by investors and its liability towards them. This liability shall be adjusted on a daily basis, and shall be backed by allocating risk capital to a special account to be overseen by the trustee, aimed at providing an available safety cushion. In addition, trustees shall be required by law to oversee ILN managing companies, as is the practice regarding mutual funds.

(b) Market risks – models were established for the measurement and management of market risks, including the VaR model and extreme scenarios. The model regulates the manner in which the value at risk is calculated, and provides the basis for an ongoing measurement of the company’s exposure and allocation of risk capital.

(c) Investment and credit risk principles – during the past year, the Department developed – in cooperation with ILN issuers - principles regarding the types of investors that ILN companies would be permitted to make, the limits on entities in which they may invest and other aspects of internal supervision over such investments. The purpose of this is to ensure that the funds of ILN holders are invested so as to minimize the risks to which they are exposed.

(d) Liquidity – as part of the principles of investment, a number of limits have been established regarding non-liquid backing assets, including the revaluation of assets according to their value upon immediate withdrawal. In addition, offering prospectuses were limited in terms of the conversion procedure, in order to enable the sale of backing assets for the purpose of paying for the conversion.

(e) Allocation of risk capital model – the model establishes the allocation of capital required for operational risk, market risk and credit risk. The purpose of the model is to neutralize economic incentives to creating risks, and on the other hand – encourage solid behavior among ILN companies.

(f) Corporate governance – the supervision model will strengthen aspects of corporate governance in ILN companies, inter alia – strengthening controls over the ongoing conduct of the companies, setting them on par with those of mutual funds.

(g) During the reporting year, the ISA completed discussions with the issuers and professional advisors assisting it with the development of the model, and established and drafted the principles for supervision, investment and capital allocation. Those principles shall be regulated via legislation as part of the process of regulating the activity in the ILN sector, through the early adoption of most principles in the ongoing activity in ILNs.
c. Pre-rulings

In 2010, the Department staff handled nine requests for pre-rulings, answering all of them, as compared with five such requests in 2009.

During the year, the staff received a request for a pre-ruling regarding the manner in which information on ILNs is presented as per the ISA’s directive regarding disclosure of credit risk, market risk, and public holdings of financial instruments. The SAB on this subject has adopted, *inter alia*, an ILN risk profile model similar to that of mutual funds (currency exposure, exposure to shares and credit exposure); a model for classifying ILNs according to the underlying assets which they follow; and the presentation of data in the reports was updated. Following the request for a pre-ruling, and as part of the SAB, the directive regarding disclosure of credit risk, market risk and public holdings of financial instruments was revised. The updated version of the directive is due for publication in February 2011.

C. OWN ACCOUNT TRADING FLOORS

1. General

Towards the end of the reporting year, the Investment Department was entrusted with handling the issue of own account trading floors, in accordance with Amendment 42 of the Securities Law of 2010 (Own Account Trading Floors). The Department staff, in cooperation with other relevant ISA departments, is working on completing the legislative procedure and regulation of this field.

2. Regulation activities

Towards the end of 2010, the ISA published on its website a draft proposal for Securities Regulation (Own Account Trading Floors) of 2010. The regulations addressed the following issues:

(a) Requests for permits – established requirements for reporting and the provision of information. A company seeking a own account permit shall add to its application a report including, *inter alia*: (1) A report in an annual report format filed by publically traded companies; (2) An “additional details” report, which includes various representations regarding the requesting entity and its controlling shareholders; (3) proposed rules and details regarding the financial instruments in which the company wishes to trade.

(b) Level of leverage – leveraged investment allows investors to invest larger sums than the amounts it actually invests. The ratio between the denominated value of the transaction and the collateral amount that clients are required to pledge shall not exceed a specified percentage, and the client’s loss shall not exceed the amount of the collateral pledged by him/her. The ISA’s chairman shall be authorized to determine a different leverage ratio regarding certain financial instruments or certain trading floors, according to their specific attributes. In addition, similar leveraging limits shall be required regarding other financial instruments which do not involved collaterals.

(c) Conflict of interest – a conflict of interest between a company and its clients stems from an inherent difficulty, created by the fact that company constitutes
the counterparty, which acquires from clients to its own account or sells to them from its own account. Companies shall be required to establish a conflict of interest policy, in which they shall detail all types of conflict of interest created in the course of their activity, as well as procedures designed to reduce such conflicts of interests. In addition, companies and their representatives shall be prohibited from providing advice, marketing and portfolio management services regarding financial instruments.

(d) Handling of client funds – client funds and assets shall be held in a trust account separately from the company’s assets, related parties and principal shareholders. Companies shall be required to deposit their clients’ funds in banks or other financial institutions outside Israel. Regarding financial institutions outside Israel – conditions regarding their rating have been established, and the company is also required to examine other accepted parameters in order to assess credit risk.

(e) Reporting – companies shall file with the ISA financial statements in accordance with the permit request format; a quarterly report in a format applicable to publically traded companies, which will mainly include information regarding compliance with the stability model. In addition, companies shall report information regarding profitable and losing accounts, scope of activity, as well as credit risk and market risk. In addition, the regulations establish requirements for immediate reports.

Provisions regulating rules of engagement between a company and its clients; documentation and document retention; adjusting activity to client specifications; marketing and advertising of companies and publications system.

The Department staff has begun assimilating said regulations: A work plan has been drawn and the MAGNA system has been prepared for own trading floor reports and related forms. During the upcoming year, the Department will prepare the necessary regulatory groundwork for this field.

D. INVESTMENT ADVISORS, INVESTMENT MARKETING AGENTS AND INVESTMENT PORTFOLIO MANAGERS

1. General

As of the end of the reporting year, there were 5,605 licensed individuals (1,041 of whom were portfolio managers, 3,960 were investment advisors, and 604 were investment marketing agents).
Table 19: Total no. of licenses granted to individuals - portfolio managers, investment advisors and investment marketing agents

<table>
<thead>
<tr>
<th>Year</th>
<th>Portfolio managers</th>
<th>Investment advisors</th>
<th>Investment marketing agents (since 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 2006</td>
<td>1165</td>
<td>4377</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>184</td>
<td>404</td>
<td>260</td>
</tr>
<tr>
<td>2007</td>
<td>226</td>
<td>666</td>
<td>202</td>
</tr>
<tr>
<td>2008</td>
<td>230</td>
<td>375</td>
<td>191</td>
</tr>
<tr>
<td>2009</td>
<td>212</td>
<td>365</td>
<td>151</td>
</tr>
<tr>
<td>2010</td>
<td>162</td>
<td>198</td>
<td>179</td>
</tr>
<tr>
<td>Total no.</td>
<td>2179</td>
<td>6385</td>
<td>983</td>
</tr>
</tbody>
</table>

Table 20: No. of applicants added each year

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Applicants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4003</td>
</tr>
<tr>
<td>2007</td>
<td>3140</td>
</tr>
<tr>
<td>2008</td>
<td>2605</td>
</tr>
<tr>
<td>2009</td>
<td>2060</td>
</tr>
<tr>
<td>2010</td>
<td>2875</td>
</tr>
</tbody>
</table>

Licensed Companies

As of the end of the reporting year, there were 201 licensed companies (of which 164 were portfolio management companies, 12 were investment advice firms, and 27 were investment marketing firms).

Following are details regarding the value of assets under management by licensed portfolio management companies as of December 31, 2010. The data are based on reports submitted by companies in accordance with Section 27(a) of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law of 1995 (hereinafter - the Advice Law) and Regulation 8 of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Regulations (Equity and Insurance) of 2000.
2. Licensing

During the year, 539 licenses were issued to individuals (162 to portfolio managers, 198 to investment advisors, and 179 to investment marketing agents). Furthermore, 18 licenses were issued to companies (eleven to investment portfolio management companies, five to investment advisory firms, and two to investment marketing firms).

20,940 individuals are currently at various stages of the licensing process, of whom 4,728 are pending licensing as retirement fund advisors.\(^\text{37}\)

During 2010, 30 company licenses were revoked at license holders’ request, of which: 23 portfolio management companies, five investment advisory firms, and two investment marketing firms.

a. Examinations

As part of the licensing of investment advisors, investment marketing agents and investment portfolio managers under the Advice Law, two examination sessions were held in May and November 2010, on the following subjects:

a. Securities laws and professional ethics;

b. Accounting;

c. Statistics and finance;

d. Economics;

e. Professional A;

f. Professional B (for those seeking investment portfolio manager licenses).

\(^{37}\) This type of license is granted by the Ministry of Finance, but license candidates are required to pass four out of six licensing exams conducted by the ISA.
9,137 exams were held for 8,042 examinees, of whom 4,792 passed (please see Table 21 below).

**Chart 7: Licensing examinees (by no. of exam units), 2006-2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Examinees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>8,852</td>
</tr>
<tr>
<td>2007</td>
<td>8,480</td>
</tr>
<tr>
<td>2008</td>
<td>8,957</td>
</tr>
<tr>
<td>2009</td>
<td>7,323</td>
</tr>
<tr>
<td>2010</td>
<td>9,137</td>
</tr>
</tbody>
</table>

**Table 21: Exam success rates in 2010**

<table>
<thead>
<tr>
<th>Subject</th>
<th>No. of Examinees</th>
<th>Annual success rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional ethics</td>
<td>5</td>
<td>80</td>
</tr>
<tr>
<td>Securities laws and professional ethics</td>
<td>1,971</td>
<td>70</td>
</tr>
<tr>
<td>Accounting</td>
<td>854</td>
<td>66</td>
</tr>
<tr>
<td>Statistics and finance</td>
<td>1,001</td>
<td>51</td>
</tr>
<tr>
<td>Economics</td>
<td>983</td>
<td>52</td>
</tr>
<tr>
<td>Professional A</td>
<td>2,259</td>
<td>58</td>
</tr>
<tr>
<td>Professional B</td>
<td>969</td>
<td>53</td>
</tr>
</tbody>
</table>

b. **Exemption from examinations**

The Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Application for License, Examinations, Internship and Fees) of 1997 (hereinafter -the Licensing Regulations) specify that candidates holding a relevant degree, within the meaning thereof under the Regulations, are entitled to exemptions from examinations. During the reporting year, 4,970 applications for exemptions were processed, of which 4,751 were approved.

c. **Disqualification of examinations due to copying attempt**

As part of the license examinations conducted by the ISA under the Advice Law, examinees receive a set of instructions, which include clear rules regarding permitted and prohibited behavior during exams. A violation of the instructions is

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38 It should be noted, that until May 2007, the Regulations granted exemptions based on relevant academic courses as well.
regarded by the ISA as a disciplinary violation which may attest to the examinee’s credibility, with its various meanings. There are cases in which the ISA is called to decide whether there is room for disciplinary action against certain examinees for the alleged violation of said instructions.

During the reporting year, the ISA continued to apply the procedure intended to set a scale for disciplinary actions taken by it in cases of violations. According to the procedure, if an examinee attempts to copy material during the exam or violates other rules, his/her examination shall be revoked and the candidate shall be prevented from taking the tests at other dates, according to the severity of the violation. The procedure appears on the ISA’s website, at the following address: http://www.isa.gov.il/Download/IsaFile_3498.pdf.

Following the issue of the procedure, a number of alleged cases of violation were brought to the attention of the ISA. After reviewing the violators’ claims, the ISA decided to revoke their exams and prohibited them from taking the exams for two additional exam dates.

**Chart 8: Processing of exemption applications, 2006-2010**

![Chart](image)

d. Internship

The abovementioned licensing regulations also regulate the compulsory internship for all applicants. During the reporting year, 524 internship applications were approved, of which 232 were for investment advice, 110 for investment marketing, and 182 - for portfolio management.
e. Procedures employed by the ISA for discontinuing internships:

During 2010, the ISA decided to discontinue an internship under Amendment 21 to the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Application for License, Examinations, Internship and Fees) of 1997 (hereinafter - the Licensing Regulations), regarding the discontinuation of an internship by the ISA, following inadequate internship, in the following cases:

(a) In the first case, an investment portfolio management intern performed its internship under a coach who was an employee at a portfolio management company which is a subsidiary of the investment house managed by the intern. This was done despite the ISA's clarification, published on November 2, 2002, according to which the ISA shall not recognize an internship in which the intern is coached by a person whose rank or position is inferior to that of the intern; for more information, please visit: http://www.isa.gov.il/Download/IsaFile_225.pdf. These facts were not brought to the attention of the ISA by the intern or coach. When the internship came to its formal end, the coach reported that the intern did not engage in other work during the internship period, even though he did serve as manager of the investment house as aforementioned. The ISA thus decided to cancel the internship. In addition, the ISA decided that this issue may be weighed as part of the conditions for granting a portfolio management license, in light of Section 8(c)(2) of the Law, if the intern will submit a request for a portfolio management license in the future.

(b) In the second case, the ISA was requested to register an intern for internship in investment portfolio management with a fund manager. Through an audit conducted by the ISA in the fund manager, it found that the fund manager who served as a coach is not employed with the fund manager, but serves as a director and substitute member of the investment team thereof. The ISA therefore decided to discontinue the internship, for reasons of inadequacy.
f. Requests handled by the board authorized under Section 8a of the Advice Law

The board authorized by the ISA to grant licenses under Section 8a of the Advice Law discussed 26 cases regarding the following issues: Exemptions from examinations, partial or full exemption from internship, and recognition of leave days during internships.

g. Licensing denied due to credibility considerations

During the year, the ISA denied a license to an applicant, after he had failed to include in a statement attached to an application form the fact that he had been investigated by the police as a suspect a few years ago. According to the ISA’s decision, the applicant shall be allowed to submit a new application within two years’ time.

h. Online processing of licensing queries through the ISA website

Towards the end of 2009, the ISA decided to improve the quality and availability of its service to the public by answering licensing-related queries online. To this end, a special infrastructure was set forth in the ISA’s website. As part of this initiative, the ISA received 8,100 queries. All queries were addressed.

3. Supervision

As of the end of 2010, 203 portfolio management, marketing or investment advisory companies were active in Israel, with a total of 5,605 individual license holders, who are employed by banking corporations, portfolio management companies, investment marketing and advisory companies or work independently.

Due to the large number of supervised individuals, resources had to be reallocated for efficiency purposes, so that the various inputs fit the risks embodied in the supervised entities.

Supervision over investment advisors, investment marketing agents and portfolio managers focused mainly on the following issues:

a. Ongoing connection with the supervised entities and close accompaniment

The activity of the Department in 2010 included ongoing rapport with the supervised entities. The ISA is responsible for the close following of these entities, which constitutes a significant part of the Department’s work and is designed to guide the supervised entities regarding proper conduct and allow for a direct connection between the ISA and supervised entities. The Department conducts meetings with those in charge of enforcement at the supervised entities, including periodical update meetings and supervises internal enforcement programs, etc. As part of this ongoing rapport, the ISA requires supervised entities to independently review the results of the examination and report to it on matters regarding the Advice Law. In addition, the Department staff participates in the meetings of the investment portfolio managers’ Compliance Officers’ Forum and in quarterly meetings with bank representatives from the Association of Banks in Israel.

b. Auditing

During the reporting year, two types of audits were conducted:
1. **Cross-sectional audits** examining one particular issue in a large number of companies. During the reporting year, seven cross-sectional audits were conducted, as follows:

2. **Focused audits** – audits focusing specific issues related to the Advice Law in licensed companies and advisory departments of banking corporations. During the reporting year, 36 company audits were conducted, as follows:

Five of the cross-sectional audits were conducted by way of correspondence, in which companies or banking corporations were requested to provide documents. Two of the cross-sectional audits were conducted by data analysis derived from IT systems, without engaging the companies under audit.

Twelve of the company audits were conducted in the companies’ offices or in bank branches. 22 of the company audits were conducted by way of correspondence, and the audited companies or banking corporations were requested to provide documents. Two of the cross-sectional audits were conducted by data analysis derived from IT systems, without engaging the companies under audit.

In audits resulting in negative findings, letters are sent, in which the faults found during the audit were detailed, as well as requirements for changes and improvements. As part of its supervisory work, the Department follows up on the implementation of requirements issued following audits.

1. **Cross-sectional audits**

a. During 2010, the Department completed a cross-sectional audit regarding the compliance of licensed advisory or marketing companies or individuals with the provisions of Section 13 of the Licensing Regulations and Section 25 of the Licensing Regulations regarding agreements and documentation of advisory activities. The audit included 15 licensed investment advice or investment marketing firms and seven individual investment advisors.

b. During 2010, the Department conducted an audit regarding the compliance of banking corporations with the provisions of Section 27(c3) to the Advice Law regarding quarterly reports by banks. This audit included 14 banking corporations.

c. During 2010, the Department conducted a cross-sectional audit regarding the compliance of investment advisors in banking corporations with the provisions pertaining to them regarding participation in conferences and the receipt of promotional items from issuers of financial products. This audit included 14 banking corporations.

d. During the reporting year, a cross-sectional audit was conducted regarding the compliance of banking corporations with the provisions of Section 20 to the Advice Law regarding the updating of advisory departments in banking corporations about changes in the mutual fund sector. This audit included 11 banking corporations.
e. In 2010, the Department initiated a cross-sectional audit regarding the compliance of portfolio management companies with the ISA’s directives and staff bulletins regarding the documentation of clients’ preferences and the reimbursement of fees as well as adequate disclosure in clients’ annual reports regarding extraordinary and low-volume securities. This audit included 40 companies. It has been completed in 38 companies, and is under way in the remaining two.

f. During the reporting year, the Department initiated a cross-sectional audit regarding the compliance of banking corporations with the provisions of Sections 14 and 20 of the Advice Law. The audit examined the manner in which advisors addressed the unusually high surcharge in mutual funds when dispensing advice and recommendations regarding investment in such funds. This audit included ten banking corporations. An audit of nine of the banking corporations has been completed, and is still under way in one.

g. During 2010, the Department initiated a cross-sectional audit regarding the compliance of licensed companies with the ISA’s directives regarding the requirement to establish work procedures. The audit included 20 companies and is in its initial stages.

h. The Department began a cross-sectional audit in all portfolio managers on the issue of remuneration of investment managers and senior officers, by way of correspondence.

i. During the reporting year, activity in securities conducted by portfolio managers, by way of transaction analysis of current irregular activity reports as well as by examinations focused on portfolio managers.

2. Company audits

a. During the year, six in-depth company audits were conducted in portfolio managers regarding the control environment and compliance with the Law. The audits, conducted by Department staff members as well as by using outsourced service providers, are in their final stages.

b. During the reporting year, eight portfolio management company audits were completed. These audits examined one or more of the following issues: client agreements; duty of trust; identifying clients’ preferences, adapting service to client preferences; documentation of clients' preferences and drawing written agreements with clients; adequate disclosure; notifications regarding conflicts of interest; disclosure of interests in financial assets; prohibition on preferential treatment.

In addition to these audits, nine audits initiated in 2010 are still under way.

c. In 2010, the Department completed 14 audits in advisory departments of banking corporations. These audits examined one or more of the following issues: duty of trust; identification of client preferences; adapting services to client preferences; adequate disclosure; notifications to clients regarding conflicts of interest; disclosure of
interests in financial assets; prohibition on preferential treatment; notifications to clients regarding high-risk transactions; prohibition on accepting incentives; keeping record of investment advisory sessions; supervision and guidance of advisors; duties of trust, care and proficiency; quality of advisory services.

In addition to these audits, five audits initiated in 2010 are still under way.

3. Audits examining compliance with the Prohibition on Money Laundering Law

During the reporting year, the Department conducted audits with portfolio management companies that are non-bank Stock Exchange members. The audits were conducted by Department staff members as well as by using outsourcing. The audits examined the companies' compliance with the Money Laundering Prohibition Order, including: the identification requirement; verification of identifying details; statement regarding controlling shareholders and beneficiaries; identification in person; safekeeping of identifying documents; regular and special reporting to the Money Laundering Prohibition Authority; the existence of a computerized database.

4. Ongoing follow-up on license holders

a. Analysis of trading activities conducted by portfolio managers in order to detect unlawful activity.

b. Follow-up on websites of supervised entities.

4. Follow-up on news items regarding supervised entities.

5. Enforcement of reporting requirements and review of reports

In 2010, the ISA enforced reporting requirements regarding the following issues:

a. Full, accurate and timely filing of annual financial statements in accordance with Section 27(a) of the Advice Law.

b. Reporting any failure to comply with license terms in accordance with Section 27(c) of the Advice Law.

c. Reporting of licensed staff by banks in accordance with Section 27(c3) of the Advice Law.

d. In addition, an in-depth examination was conducted in a number of portfolio managers regarding meeting equity and insurance requirements, including the review of financial statements and insurance policies.

Furthermore, companies whose annual financial statements indicated that they failed to meet equity and/or insurance requirements at the end of the reporting year were required to take the necessary corrective action immediately, so as to comply with the Law. Failure to do so would lead to revocation of the license.

6. Examination of alleged violations of the Advice Law

The Investment Department investigates alleged violations of the Advice Law. These investigations are carried out following public complaints or
following suspicions that arise during the ordinary course of the Investment Department's operations. In addition to conversations with those persons submitting complaints, investigations include meetings with those persons, contacting banks and Stock Exchange members for further information, and a detailed examination of the findings. At the end of these investigations, a decision is made regarding the course of action for each case, bearing in mind, *inter alia*, public interest, reliability of the information, and the quality of evidence.

During the reporting year, 111 cases of possible criminal and/or disciplinary violations were investigated, of which 30 cases were from the previous year. Of the 111 cases investigated, 90 cases were closed, as follows:

**45 cases were handled in the following manner, of which:**

Seven cases were submitted for auditing.

In five cases the ISA issued letters to relevant persons concerning identified flaws, requiring them to remedy the flaws and report thereof to the ISA.

Four cases were transferred to other departments.

Six cases were forwarded to other authorities.

In 23 cases, alternative enforcement means were exercised.

**45 cases were closed for one or more of the following reasons:**

No violation of the Law was found; lack of evidence; lack of cooperation by the complaining party or inability to contact the complaining party; lack of public interest due to the time that elapsed between the violation and the filing of the complaint or because the complaint was diminutive.

As of the end of 2010, 21 cases were still pending.

c. **Conferences for license holders**

Holding professional conferences for license holders is another vehicle for maintaining an ongoing direct contact with license holders. Such conferences represent an additional opportunity for the ISA to clarify its stances on a number of issues related to the Advice Law, as well as for license holders – to react and provide the ISA with information on various issues. The conferences allow the Department’s staff to present the principles underlying its supervision work – where materiality supersedes technical details, giving specific examples and conducting a fruitful dialog. This year, the Investment Department staff held a conference for district and regional investment advisors in banking corporations, regarding how to conduct and document advisory sessions. In addition, following a request by banking corporations, the Department staff lecture from time to time in conferences held by banks for their investing advisors, presenting the ISA's stance on relevant issues. In 2010, the Department staff participated in three investing advisors conferences held by banks, where it presented its stance regarding how to conduct and document advisory sessions.
d. Training

In order to improve compliance by licensed companies, the ISA continued providing training to all new companies in 2010. Training sessions are conducted with each company separately, near the date on which licenses are granted. Training sessions are carried out in person with the management and employees of each company. During training sessions, the company's representatives review the main points of the Advice Law and the Prohibition on Money Laundering Law, including the company's duties towards its clients and towards regulators. Furthermore, company representatives receive information on problems and flaws found in audits conducted in other companies, along with information on how to avoid such pitfalls. Training is conducted in small groups, which allows training supervisors to address specific questions raised by company representatives. In 2010, 12 training sessions were carried out, emphasizing companies' duties to act first and foremost for the benefit of their clients, and further stressing the need for internal company controls and enforcement.

4. Regulation Activities

In 2010, the Investment Department drafted and promoted bills and legislative amendments as follows:

a. Primary legislation

During the year, the following regulations were published:

1. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management (Amendment 13) of 2000. The amendment is intended to establish an arrangement under Chapter B1 of the Law, whereby foreign entities that are licensed to grant investment advice, marketing or portfolio management services in their countries of origin, may offer their services in Israel without obtaining a relevant local license, as part of an agreement with a local license holder, provided they meet additional conditions specified in the Law. In addition, the Law was amended in other aspects, including: extended services may be provided to qualified clients without the need for a license as required by law, providing tests to determine whether a client is qualified; granting the ISA authority to use outsourcing for the purpose of supervising license holders, etc. The Law went into effect on April 18, 2010, excluding Chapter B1, which deals with services provided by foreign entities. This chapter will become effective provided that the related regulations become effective.

2. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Bill (Amendment 14) of 2008. One of the goals of this amendment is to change the insurance requirement from a licensing prerequisite to a requirement for providing investment advice, investment marketing and investment portfolio management services (hereinafter - services). Another goal is to regulate various ILN-related aspects of these services, and match the regulation for ILNs to that which applies to mutual funds. The Amendment went into effect on June 3, 2010.
Bills approved by the ISA Plenum

1. Bill for the Regulation of Investment Intermediaries of 2010. This Bill deals with the amendment and revision of some of the existing arrangements regarding investment advisors, investment marketers, and investment portfolio managers, as well as with the regulation of additional investment intermediaries (such as brokers, dealers and custodians). In addition, the bill proposes to establish a legal groundwork for a supervisory board, the members of which shall include industry representatives and which shall regulate and supervise intermediaries. The bill proposes that the ISA supervise the board and that its activity shall be financed by member fees.

2. Bill for the Regulation of Ranking Agencies of 2010. This bill lays the regulatory groundwork for the activity of ranking agencies, subjecting them to the ISA’s supervision in order to protect the investing public and promote a uniform, credible and high quality ranking procedure. It is proposed that the regulation principles shall be determined as in existing arrangements under development in Europe as well as in the United States (for further information, please see Chapter VII, under Proposed Legislation and Subsidiary Legislation).

b. Subsidiary legislation

1. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Application for License, Examinations, Internship and Fees) (Amendment) of 2010. The proposed Regulations implement changes in the licensing examinations and in the internship programs. These changes are aimed at increasing the professional level of license holders, while simplifying licensing procedures. In addition, changes are proposed in the fee system applied to license holders and applicants. The regulations have been submitted to the Knesset Finance Committee for approval.

2. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Reports) of 2010. The proposed Regulations regulate adequate disclosure by license holders in accordance with the Advice Law. The regulations have been submitted to the Knesset Finance Committee for approval.

3. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Regulations (Foreign Service Providers) of 2009. The proposed regulations provide for a foreign service providers registry that will be established following the enactment of Amendment 13 to the Law. The Regulations were approved by the Knesset Finance Committee on October 26, 2010.

4. Revision of Money Laundering Prohibition Order (Requirements Regarding Identification, Reporting, and Record Keeping for Securities Exchange Members for the Prevention of Money Laundering and Financing of Terrorism) of 2010 and revision of the Money Laundering Prohibition Order (Requirements regarding Identification, Reporting, and Record Keeping for Portfolio Managers for the Prevention of Money Laundering and Financing of
Terrorism) of 2010 are intended to establish a requirement for a procedure for familiarization with clients; a requirement to establish policies, tools and risk management strategies regarding money laundering; adding a second amendment to each order, detailing activities which may appear irregular; establishing reporting requirements in the area of the financing of terrorism and extension of the reporting requirement regarding irregular activities. The Orders shall go into effect six months following their publication in the Official Gazette, on May 31, 2011. (For further information, please see Chapter VII, under Proposed Legislation and Subsidiary Legislation).

c. Directives in accordance with Section 28 of the Advice Law

Section 28(b) of the Advice Law authorizes the ISA to issue directives regarding the operation and management of license holders, officers in license holders and all persons employed by license holders, in order to assure the proper conduct of license holders. During the year, the ISA issued the following directive:

**Directive to License Holders Regarding the Requirement to Identify Clients’ Preferences, Adapt Services to Clients’ Preferences, in accordance with Section 12 of the Law and Documentation of Details in accordance with Section 13 of the Law (Revised - 2010)** – the Directive updates a previous directive dated January 1, 2008. This new version of the directive is the result of lessons and insights derived from the application of the previous directive. The significance of the process of identifying clients’ preferences, which forms the basis for the relationship between individual clients and individual license holders, brought about a new version of the directive, which would include, *inter alia*, clarifications provided through answers to queries from the public, staff bulletins, as well as various issues which arose following an examination of the manner in which the directive was implemented.

d. Staff bulletins

The ISA publishes staff bulletins stating its position on interpretations of the law in matters with broad implications, which pertain to a number of queries or to the market as a whole, and which the ISA deems to be lacking in clarity, in need of further clarification, or too broad and in need of specification.

During the reporting year, the ISA published nine staff bulletins on various issues concerning the Advice Law and Regulations and the Prohibition on Money Laundering Law - concerning Stock Exchange members and portfolio managers. These included FAQs on various issues, combining answers to individual pre-ruling queries and the broader ISA position on the issue at hand.

e. Pre-rulings

During the reporting year, 30 pre-ruling requests concerning the Advice Law and the Prohibition on Money Laundering Law were received by the Investment Department. One request is still pending.

5. Enforcement Activities Concerning License Holders

a. Revocation and suspension of licenses following ISA decisions
Revocation/suspension due to failure to meet license terms

By virtue of its powers under Sections 7(a)(6) and 8(a)(6) of the Advice Law, the ISA suspended the licenses of 18 individuals due to failure to meet the insurance requirement.

In addition, the ISA suspended the licenses of 122 individuals for failure to pay annual fees, in accordance with Section 41(b) of the Advice Law.

b. Civil fines imposed under Chapter G1 of the Law

According to Section 38A of the Advice law, the ISA Chairman may impose civil fines on anyone violating the provisions of the Law. The ISA collects the fines and transfers them to the State Treasury.

The ISA imposed fines on 18 licensed companies and three banking corporations, as detailed below:

<p>| Table 22: Violations for which fines were imposed in 2010 and fine amounts |</p>
<table>
<thead>
<tr>
<th>Company</th>
<th>Violation for which fine was imposed</th>
<th>Sections of Advice Law under which fine was imposed</th>
<th>Fine amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mofet Financial Products Ltd.</td>
<td>Failure to report non-compliance with license terms regarding insurance</td>
<td>27(c)</td>
<td>NIS 43,344</td>
</tr>
<tr>
<td>2</td>
<td>Synergy Capital Markets Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client preferences</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 27,000</td>
</tr>
<tr>
<td>3</td>
<td>BSP Funds Ltd.</td>
<td>Failure to report non-compliance with license terms regarding insurance</td>
<td>27(c)</td>
<td>NIS 30,650</td>
</tr>
<tr>
<td>4</td>
<td>OR GAP Portfolio Management Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client needs</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 24,000</td>
</tr>
</tbody>
</table>

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<tr>
<th>Company</th>
<th>Violation for which fine was imposed</th>
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<td>13(b)(2) and 28(b)</td>
<td>NIS 24,000</td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Description</td>
<td>Section</td>
<td>Fine</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>---------</td>
<td>--------</td>
</tr>
<tr>
<td>5</td>
<td>Aderet Shiluvim Financim Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client preferences</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to report identity of insurer and insurance period in quarterly report</td>
<td>26(a)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Attractive Investments Management and Marketing Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client needs</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 15,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to report identity of insurer and insurance period in quarterly report</td>
<td>26(a)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Green Bull Investments Management Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client needs</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 48,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to report identity of insurer and insurance period in quarterly report</td>
<td>26(a)</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Hadas Arazim Portfolio Management Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client preferences</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to report identity of insurer and insurance period in quarterly report</td>
<td>26(a)</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Vered Dorot Portfolio Management Ltd.</td>
<td>Failure to comply with the provisions of the Law regarding identification of client preferences</td>
<td>13(b)(2) and 28(b)</td>
<td>NIS 18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to report identity of insurer and insurance period in quarterly report</td>
<td>26(a)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Reason for Delinquency</td>
<td>Amount (NIS)</td>
<td>Date</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------</td>
<td>------------------------</td>
<td>--------------</td>
<td>------------</td>
</tr>
<tr>
<td>10</td>
<td>Global Financial Horizons Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>11</td>
<td>Financial Challenges Optimum Investment Management Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>12</td>
<td>Bukai Brokers Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>13</td>
<td>First International Bank of Israel Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>14</td>
<td>Bank Hapoalim Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>15</td>
<td>Bank Massad Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>16</td>
<td>Tandem Capital Asset Management Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>17</td>
<td>Magna Asset Management Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>18</td>
<td>Proxima Investment Management Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>19</td>
<td>Kali Capital Markets Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
<tr>
<td>20</td>
<td>Rosenbaum R. Investments Ltd.</td>
<td>Delinquent filing of a report</td>
<td>27(c3)</td>
<td>December 22, 2010</td>
</tr>
</tbody>
</table>
No fines were appealed.\(^{39}\)

c. **The Committee for Financial Sanctions under the Money Laundering Prohibition Law**

Following audits conducted in portfolio management companies, in 2010 the ISA imposed fines on four companies where violations of the Prohibition on Money Laundering Law and Orders were found.

Fines are collected by the ISA and transferred to the Administrator General for the benefit of a fund established under the Dangerous Drug Order.

<table>
<thead>
<tr>
<th>Company</th>
<th>Violation for which financial sanction was imposed</th>
<th>Sections violated (Prohibition on Money Laundering Order)</th>
<th>Sanction imposed</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meitav Investment Management Ltd.</td>
<td>Failure to verify identifying details, statement regarding beneficiary and database</td>
<td>Sections 3, 4 and 15(a)</td>
<td>NIS 264,000</td>
<td>October 5, 2010</td>
</tr>
</tbody>
</table>

**d. Judicial proceedings involving the ISA**

1. **Appeal no. 1411/10, Harry Sapir Investment Management Inc. vs. Prof. Zohar Goshen**

A financial sanction in the amount of NIS 276,000 was imposed on the Company for violating the Prohibition on Money Laundering Law of 2000 and the Prohibition on Money Laundering Order (Identification, Reporting and Documentation Requirements for Portfolio Managers) of 2001. The appeal attacked the Committee’s decision – dated December 16, 2009 – to impose a financial sanction on the Apellant, on the grounds that it was arbitrary and discriminatory in relation to other sanctions imposed by the Committee, and is unreasonable. In a decision dated November 17, 2010, the Jerusalem Magistrate Court rejected the appeal and stated that the decision making procedure employed by the Committee was adequate, and that the aim of the law was applied, using adequate and reasonable discretion. Regarding the fine amount imposed, the Court determined that it is considerably lower than allowed under the Law and Regulations. The Court added that finding faults with half of the client portfolios examined indeed indicates that the Apellant’s conduct is systematically inadequate.

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\(^{39}\) Companies which were fined in the last session of the board in December may appeal their fines until January 22, 2011.
2. Appeal 3623/03, Appeal 3643/03, the ISA and Supervisor of Banks vs. the Association of Banks in Israel and Counter Appeal

The dispute revolves around an SLB published by the Department of Supervision over Investment Advisors and Portfolio Managers (currently part of the Investment Department), which the Supervisor of Banks has adopted as well, regarding the definition of the term “investment advice”. The main need to publish the SLB stemmed from the manner in which banks provided their clients with information regarding products under their management, such as mutual funds. The Association of Banks in Israel filed a request for a declarative judgement, to the effect that the SLB was published without authorization and is erroneous. All parties appealed the District Court’s decision.

Many years have elapsed without a verdict. During that time, the Bahar Reform was instituted, requiring banks to sell their fund management and pension fund activities. Following the structural changes implemented in this sector in light of the Reform, the parties arrived at a court sanctioned agreement, according to which the District Court’s decision was revoked and a position was agreed upon. The decision included, *inter alia*: "Provision of information regarding a security or another financial asset to others when the choice of information provided is made at the discretion of the information provider or the entity in which he/she is employed, and the information may lead to a conclusion regarding the value of investing in a specific security or financial asset, constitutes investment advice even if investment advice has not been explicitly granted - the provisions of this Paragraph shall not apply if the information regarding the security or financial asset is factual (not at the discretion of the information provider), provided as a response to a query by the receiver of information, including by telephone or fax."

(For full details regarding these proceedings, please see Chapter VII, Legal Counsel, under Judicial Proceedings Involving the ISA.)
VI Department of Supervision over the Secondary Market

The Department of Supervision over the Secondary Market coordinates the supervision and control activities over the proper and fair conduct and trading on the Tel Aviv Stock Exchange and its clearing houses.

The Department’s Purview

1. Supervision over trading on the Stock Exchange

The control and supervision of trading on the Stock Exchange are conducted by electronic and other examinations, in an effort to identify irregular trading activities within and outside the Exchange, which may be indicative of violations of the Securities Law. In 2010, the Department developed new algorithms for the purpose of analyzing behavioral irregularities in the BI (Business Intelligence) system.

2. Supervision over the Stock Exchange clearing houses

During the reporting year, the Department staff promoted, through cooperation with the bank of Israel, issues and areas regarding the stability of the Stock Exchange clearing houses and ways to confront failures and emergency situations.

3. Supervision over the Stock Exchange Members Department and the Stock Exchange

As part of the supervision activity over the Stock Exchange Members Department and overall supervision of the Stock Exchange, the Department handled various aspects regarding the activity of Stock Exchange members, including stability requirements for non-bank Stock Exchange members (hereinafter - NBMs), documentation (IPs), client activity, and aspects regarding disaster recovery planning (DRP) for non-bank Stock Exchange members. As part of its ongoing supervision activity, the Department receives from the Stock Exchange current reports regarding irregular member activities, including details about the financial stability of NBMs.

4. Own account trading floors

During the year, the Department promoted legislation aimed at regulating own account trading floors. As part of this activity, the Knesset approved an amendment to the Securities Law (Amendment 42), which regulates their activity. In addition, the Department promoted the development of amendments regarding various aspects of own account trading floors, including requirements concerning the stability of trading floors, the manner in which they are marketed, permitted level of leverage, as well as regulations regarding the manner of safekeeping clients’ funds.

5. Stock Exchange rule making activities

Changes in the Stock Exchange Rules and Regulations

As part of the ISA’s supervision over the proper and fair management of the Stock Exchange, the ISA’s recommendation to the Minister of Finance is required for any changes made in the Stock Exchange rules. In addition, the ISA’s approval is required for any changes in the Rules and Regulations’ provisions. For this purpose, the ISA recommended to the Minister of Finance to adopt revisions to the Rules and Regulations initiated by the Stock Exchange, and approved the revisions, as follows:
5.1 February 21, 2010

a. The ISA recommended the revision of provisions regarding the calculation of the weight of an index share;

b. The ISA approved a revision to the price list (appended to the Stock Exchange provisions) for clearing fees charged for repo transactions;

c. The ISA approved the revision of the price list regarding non-cash payment of dividend, interest or redemption;

d. The ISA approved an amendment to the provisions concerning market makers in share warrants;

e. The ISA approved the revision of provisions regarding maximum order size;

f. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding the suspension of trading in stocks of companies facing difficulties;

g. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding the definition of a limited partnership project for film production.

5.2 April 26, 2010

a. The ISA approved the revision of provisions regarding authorization by clients;

b. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding the initiated provision of information by the Stock Exchange to the ISA.

c. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding causes for suspension and revocation of Stock Exchange membership.

d. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding qualification conditions for risk controllers, credit controllers and compliance officers;

e. The ISA recommended that the Minister of Finance amend the Stock Exchange rules, while simultaneously approving an amendment to the regulations concerning the activity of custodians in derivatives;

f. The ISA approved the revision of provisions regarding changes in application forms to act as Stock Exchange market makers;

g. The ISA recommended to the Minister of Finance to revise the Rules and Regulations regarding new Stock Exchange members and that temporary provisions become part of the Rules and Regulations;

h. The ISA recommended the revision of provisions regarding single share options;

i. The ISA approved the revision of provisions regarding circuit breakers and the possibility of changing the trading schedule in case of an event bearing wide ranging ramifications;

j. The ISA approved the revision of provisions regarding the upgrading of Stock Exchange index methodologies according to international standards.
5.3 August 11, 2010

a. The ISA approved the revision of temporary provisions regarding contract certificates;
b. The ISA approved the revision of provisions regarding requirements for low volume securities;
c. The ISA approved provisions regarding the change of dates and update deadlines for the low volume securities list;
d. The ISA approved a revision to the price list (appended to the Stock Exchange provisions) for clearing fees charged for repo transactions;
e. The ISA recommended to the Minister of Finance to revise Section 6.d of the 4th Part of the Stock Exchange Rules and Regulations;
f. The ISA recommended to the Minister of Finance to revise the Rules and Regulations, and also approved the revision of provisions regarding collateral values for assets, financial assets, and collateral requirements for short sales.

5.4 November 16, 2010

a. The ISA approved a revision of the price list (appendix to the provisions) regarding authorization to use Stock Exchange rates for the purpose of calculating indexes;
b. The ISA approved a revision of the price list (appendix to the provisions) regarding clearing fees for securities on T+1 dates;
c. The ISA approved the revision of provisions regarding the last day of trading in securities with the transition to T+1 inventory clearing;
d. The ISA approved a revision to the price list (appended to the Stock Exchange provisions) for clearing fees charged for repo transactions;
e. The ISA approved a revision of provisions regarding the deadline for announcing a new security to be traded on the Stock Exchange;
f. The ISA approved the revision of the price list (appended to the Stock Exchange provisions) regarding trading and clearing fees for stock options.

5.5 November 25, 2010

a. The ISA recommended to the Minister of Finance to revise the Rules and Regulations, and also approved the revision of provisions regarding equity requirements for NBMs and appendixes regarding equity requirements for NBMs.
VII Legal Counsel Department

Throughout the reporting year, the ISA Legal Counsel Department provided extensive legal support to all departments of the ISA.

This support included providing ongoing counsel to the various departments and handling various issues and inquiries which affected the departments’ activities. Additionally, legal support included participation in a variety of work groups. The Legal Counsel Department’s support also included providing ongoing counsel to the Plenum and to ISA committees, primarily on legislative interpretation and implementation, promoting legislation, addressing broad-reaching issues with clear legal aspects and aiding in implementing the legislation and rules that are relevant to the ISA’s ongoing activity.

The Legal Counsel Department also coordinates and spearheads legal proceedings in which the ISA is involved, and addresses public inquiries on an ongoing basis.

Main legal issues that are fundamental to the ISA’s activity, in which the Legal Counsel Department was involved, include

1. **Administrative enforcement** - The Legal Counsel Department promoted the formulation and advancement of the Streamlining of ISA Enforcement Procedures Bill (Legislative Amendments), 2010. The Bill was approved by the Knesset Finance Committee on September 14, 2010, as a step towards its approval by the Knesset on its second and third reading and its subsequent publication. The Bill establishes an administrative enforcement mechanism, which will serve as a complementary alternative to criminal procedure.

   This model is aimed at providing the ISA with an additional enforcement tool that is more effective and more suitable for use in statutory violations that the ISA is charged with enforcing. For more information, please see Section I, under Proposed Primary Legislation.

2. **Establishing an economics section within the Tel Aviv District Court** - The Department promoted the formulation and adoption of the Courts Law (Amendment 59), 2010, published on July 27, 2010. The Amendment establishes an economics section in the Tel Aviv District Court, which is to hear the majority of the proceedings of an economic nature. For more details on this matter, please see Section g below, under Primary Legislation. It should be noted that the Economic Section was established and commenced operations on December 15, 2010.

3. **Administrative rule making** - The Department promoted the formulation and adoption of the Administrative Powers of the Israel Securities Authority Bill (Legislative Amendments) of 2010. Similar to powers currently granted to other regulators in Israel and abroad, the Bill proposes that the ISA be granted regulative rule making powers. An exposure draft of the Bill was distributed on May 6, 2010. For more information, please see Section q below, under Proposed Primary Legislation.

4. **Own account trading** - The Department, together with the Department of Supervision over the Secondary Market and the Financial Instruments Unit of the Investment Department, promoted the formulation and adoption of the Securities Law (Amendment 42) of 2010, published on June 15, 2010. The Department and the aforesaid parties further drafted the Securities Regulations (Own Account Trading) of 2010, which were
approved by the ISA Plenum on October 24, 2010. The Law and Regulations regulate alternative trading floors which allow investors to trade with dealers in various financial assets (foreign currency derivatives, indexes, commodities, etc.). The published amendment and the draft regulations, which are to validate the amendment, subject own account trading to regulation and supervision by the ISA. For more information, please see Section f below, under Primary Legislation, and Section 36 - Proposed Secondary Legislation.

5. **Regulation of the securitization market** - The Department was involved in various activities aimed at regulating the securitization market in Israel. These activities were carried out in conjunction with the Corporate Finance Department, and included participation in an interdisciplinary team comprised of representatives from the Bank of Israel, the Tax Authority, the Ministry of Justice and the Ministry of Finance. For more information, please see Chapter 4 - Corporate Finance Department.

6. **Prohibition on front-running** - The Department promoted the formulation and adoption of the Prohibition on Unfair Use of Information Bill (Legislative Amendments) of 2010. First and foremost, the amendment aims to prevent front-running transactions by account managers and their employees. In addition, the amendment aims to establish a comprehensive and coherent regulatory framework for holders and dealers in securities. Currently, such regulation is set out under the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Services Law of 1995 (hereinafter - the Advice Law), and under the Joint Investment Trust Law of 1994 (hereinafter - the Joint Investment Law). For more information, please see Section s below, under Proposed Primary Legislation.

**Legislation**

1. **Primary and secondary legislation published in the reporting year**

   **Primary legislation**

   a. **Joint Investment Trust Law (Amendment 14) of 2010, concerning tenders for contracting with dealers [Sefer HaHukkim (Book of Laws) 2229, p. 3879]**

   The Amendment is the result of a private bill submitted by MK Amnon Cohen, and whose formulation involved the ISA. The Law was published on February 16, 2010, and is due to come into effect along with its corresponding rules. These rules have been submitted for approval by the Knesset Finance Committee (for more details, please see Section mm, under Proposed Secondary Legislation).

   The Amendment aims to improve the manner in which the Law handles the conflicts of interest inherent in a fund manager’s engagement with a related dealer for receipt of brokerage services for the managed funds. This goal will be achieved by requiring fund managers to conduct tenders prior to signing an agreement for any brokerage services. However, the Amendment states that fund managers may be exempt from the tendering requirement when signing contracts for carrying out transactions in foreign securities with overseas-listed dealers, provided that such dealers are completely unrelated to the fund manager. Furthermore, fund managers may contract without tender with a dealer related to the fund manager or the trustee when the contract accounts for up to 40% of the total transactions carried out in the
fund's assets, provided the terms of the engagement are not inferior to those agreed upon with the winning bidder in the tender. Concurrently, the ISA is authorized to issue rules governing the tendering process, and rules specifying those circumstances in which a dealer will be considered as being related to a fund manager.

b. Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Services Law (Amendment 13) of 2010, concerning foreign providers [Sefer HaHukkim (Book of Laws) 2229, p. 370]

The Amendment was published on February 16, 2010, and went into effect 60 days from its publication, except for Chapter B1 and Sections 39(C) and 41, which are due to go into effect along with the regulations to be formulated under Section 10H of the Law (for more information, please see Section w below, under Proposed Secondary Legislation).

The amendment covers a number of issues, including:

- Enabling foreign parties authorized to provide portfolio management, investment advice and investment marketing services in their home country to provide such services to persons in Israel, even if they do not hold an Israeli license. The foreign parties may render their services through a licensed company, and the licensed company is required to oversee the foreign party's activities. The Amendment also imposes civil and criminal liability on the licensed company for the foreign party's actions;

- The Amendment authorizes the ISA to use outsourced resources in auditing license holders, similar to its powers under the Securities Law of 1968 (hereinafter - the Securities Law), and under the Joint Investment Law;

- Revocation of the residency or citizenship requirements for granting licenses to individuals: As part of the understanding that globalization diminishes the distinction between Israeli citizens and residents, and non-citizens and non-residents, the residency or citizenship requirement has been superseded by a requirement guaranteeing enforceability of the Law on license applicants. Israeli residency will serve as peremptory evidence for the applicant meeting the aforesaid requirement. The Amendment is also required in light of reservations expressed by OECD representatives as to the residency or citizenship requirements prescribed under the previous legislation;

- Furthermore, the Amendment expands the list of capable clients who may receive advice from non-licensed individuals. Namely, the Amendment adds to this list individuals holding high-value portfolios or possessing capital market expertise or skills. This expansion is based on the assumption that such individuals can afford professional counsel in making investment decisions, or are capable of making such decisions themselves. Therefore, such individuals do not require the Law's protection as reflected in the licensing requirement. Furthermore, the Amendment exempts those rendering service solely to capable clients, including capable individuals as aforesaid, from holding a portfolio management and marketing license.

The Amendment also includes indirect amendments to various laws, including the Securities Law (Amendment 39), and transitional provisions for exemptions from the internship requirement set forth under the Regulation of Investment Advice,
c. Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Services Law (Amendment 14) of 2010, concerning insurance and ILNs [Sefer HaHukkim (Book of Laws) 2232, p. 409]

The Amendment was published on March 3, 2010, and went into effect 90 days from publication.

The Amendment is aimed at regulating two matters:

First, changing the insurance requirement from a prerequisite for obtaining a license to a prerequisite for providing investment advice, investment marketing, and investment portfolio management services. This change is designed to allow individuals meeting all other licensing criteria prescribed by the Law to be granted licenses even without meeting the insurance requirement.

Second, regulating various ILN-related aspects of the services by amending and broadening the definition for "ILNs" and replacing this term with "Indexed Products". Furthermore, the Amendment equates the regulation for rendering Indexed Product services to that applicable to mutual funds.

d. Securities Law (Amendment 40) of 2010 - indirect amendment under the Bank of Israel Law of 2010 [Sefer HaHukkim (Book of Laws) 2237, p. 474]

The Amendment was published on March 24, 2010, and went into effect on June 1, 2010.

The Amendment is an indirect amendment to the Securities Law, aimed at excluding securities issued by the Bank of Israel from the definition of "Securities" under Section 1 to the Law. These securities are similar to government-issued securities, which have previously been excluded from the definition under Section 1 to the Law.

e. Securities Law (Amendment 41) of 2010, concerning a mutual recognition agreement with the French Securities Authority [Sefer HaHukkim (Book of Laws) 2240, p. 511]

The Amendment was published on May 31, 2010, and went into effect 30 days from publication.

The Amendment is designed to lay the legislative groundwork for implementing a mutual memorandum of understanding signed in late January 2008 between the ISA and the French Securities Authority (AMF). The memorandum of understanding serves to open Israeli and French markets to trading in securities issued by French and Israeli companies, respectively, with mutual reliance by both Authorities. Underlying the agreement was Section 20 of the European Union Prospectus Directive, aimed at establishing principles and mechanisms for positive cooperation, according to which companies listed on Euronext Paris or on the Tel Aviv Stock Exchange will be able to list their securities on both stock exchanges. This arrangement is in line with the EU's Single Passport concept.

The Amendment enables foreign companies which meet certain requirements to list their securities in Israel according to the dual-listing arrangement (Chapter E(3) of the
Securities Law), based on a prospectus duly approved in their country of origin. The principle requirement is that the offered securities be listed (or will be listed in the future) for trading on a foreign exchange included in the Third Schedule B, which has been added to the Law. Such listing may be effected simultaneously on both exchanges, or listing in Israel may follow listing on the overseas exchange. For now, the arrangement applies only to the Euronext Paris exchange. However, the ISA is considering expanding the arrangement to additional markets. Such expansion will require examination of the relevant laws and regulators, as part of the ISA’s commitment to safeguard the interests of Israeli investors.

f. Securities Law (Amendment 42) of 2010, concerning own-account trading [Sefer HaHukkim (Book of Laws) 2243, p. 536]

The Amendment was published on June 15, 2010, and its effective date was set at the later of three months from publication or upon its corresponding regulations coming into effect. Such regulations were published for public review (for more information, please see Section jj below, under Proposed Secondary Legislation).

In Israel there is extensive activity in foreign currency and its derivatives, which takes place in an "over-the-counter" (OTC) format. Most of this activity is carried out by banks and is supervised by the Bank of Israel. However, in addition to this activity, there are trading floors in Israel which allow investors to trade with dealers on various financial assets (foreign currency derivatives, indexes, commodities, etc.). These trading floors are intended primarily for small-volume investors. These trading floors evolved following advances in the internet and e-commerce.

The Amendment regulates own-account trading floors, i.e. - those floors where trading occurs with the floor’s own account. These floors are in urgent need of regulation. However, the new amendment does not cover trading floors whose activities are similar to those of the Tel Aviv Stock Exchange, i.e. - various traders trading amongst themselves.

The Amendment includes indirect amendments to several laws, including; the Joint Investment Law (Amendment 15), and the Securities Law (Amendment 38) (Amendment).

g. Courts Law (Amendment 59) of 2010, concerning powers in economic affairs [Sefer HaHukkim (Book of Laws) 2253, p. 612]

The Amendment was published on July 27, 2010, and went into effect on December 15, 2010.

The Amendment aims to streamline and update criminal, administrative, and private enforcement of securities laws and companies laws. This goal is to be achieved through the establishment of an economic section in the Tel Aviv District Court, where most judicial proceedings in these matters will take place. The Economic Section will hear all economic matters brought before the Tel Aviv District Court. Establishment of the Economic Section was required to enable effective management of legal actions according to economic laws, and in order to assure consistent court decisions which will minimize uncertainty and promote stability in economic matters. Furthermore, the Amendment proposes that actions concerning economic matters will be heard by district courts.
The Amendment is in line with the Goshen Committee’s recommendations, published in December 2006.

The Amendment also includes indirect amendments to various laws, including the Securities Law (Amendment 43), the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Services Law (Amendment 15), and the Joint Investment Trust Law (Amendment 16).

As aforesaid, the Economic Section has been established, and commenced operations on December 15, 2010.

Secondary Legislation

h. Prohibition on Money Laundering Order (Identification, Reporting and Record Keeping Requirements of TASE Members for Prevention of Money Laundering and Terrorism Financing) of 2010;

Prohibition on Money Laundering Order (Identification, Reporting and Record Keeping Requirements of Portfolio Managers for Prevention of Money Laundering and Terrorism Financing) of 2010;

In 2008, the Minister of Finance submitted new Money Laundering Prohibition Orders to the Knesset Constitution, Law and Justice Committee. These new orders supersede the Money Laundering Prohibition Orders (Identification, Reporting and Record Keeping Requirements of TASE Members) of 2001, as well as the Money Laundering Prohibition Order (Identification, Reporting and Record Keeping Requirements of Portfolio Managers) of 2001.

Prior to the orders’ approval, an audit report was received from Moneyval, an FSRB (FATF-Style Regional Body) in Israel. The report indicates several issues in the Orders which must be corrected in order to comply with international money laundering prohibition standards. The new Money Laundering Prohibition Orders were amended accordingly.

The main changes were as follows: Requiring familiarization with clients; requiring that policies, tools and risk management processes be instituted as regards money laundering prohibition; adding a second schedule to each order which details suspicious transactions; establishing terror financing prevention reporting requirements and expanding reporting requirements regarding irregular transactions.

The Orders were approved by the Knesset Constitution, Law and Justice Committee on June 7, 2010, and published on November 30, 2010. The Orders are to come into effect six months from their publication in the Official Gazette, on May 31, 2011.

i. Annulment of Regulations [Kovetz HaTakanot (Collection of Regulations) 6915, p. 1452];

Securities Regulations (Legal Procedure for Class Actions) (Annulment) of 2010

The annulment was published on July 29, 2010, and went into effect 60 days from publication (upon the coming into effect of the Class Action Regulations, 2010).

The annulment coincided with the enactment of the Class Action Regulations of 2010, which rendered the annulled regulations redundant.
j. Extension of the exemption from prospectus fees on offers of commercial papers or shares issued by a real-estate investment trust (REIT): [Kovetz HaTakanot (Collection of Regulations) 6887, p. 1042];

Securities Regulations (Fee on Permit Applications for Publication of a Prospectus) (Temporary Provision) (Amendment), 2010

The Regulations were published on April 26, 2010, and were effective immediately.

The Securities Regulations (Fee on Permit Applications for Publication of a Prospectus) (Temporary Provision) (Amendment) of 2005, granted an exemption from fees for prospectuses offering commercial papers or shares issued by REITs. This exemption was granted for a period of two years from the effective date of the arrangement made for REITs under Amendment 147 to the Income Tax Ordinance [New Version].

The exemption was granted as these are two relatively new financial instruments, which may play an important role in advancing the capital market. Therefore, the ISA sought to encourage their development. However, the exemption was limited for a two-year period, and was to be re-considered after examining these instruments' behavior on the market. In 2008, in light of only minor use of the exemption, the temporary provision was extended by another two years. However, little change occurred by the new expiration date, and it would seem that the financial crisis affected the capital market and further hampered the establishment of these instruments. Therefore, and as the reasons underlying the exemption remained valid, the temporary provision and the exemption period were extended once more, until January 1, 2012.

k. Adjustments related to the transition to International Financial Reporting Standards (IFRS): [Kovetz HaTakanot (Collection of Regulations) 6861, p. 662];

Securities Regulations (Annual Financial Statements) of 2010;

Securities Regulations (Periodic and Immediate Reports) (Amendment 2) of 2010;

Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus) (Amendment) of 2010;

Securities Regulations (Private Offering of Securities in a Listed Company) (Amendment) of 2010;

Securities Regulations (Transaction between a Company and a Controlling Shareholder therein) (Amendment) on 2010;

Securities Regulations (Presentation of Transactions between a Corporation and a Controlling Shareholder in Financial Statements) (Amendment) of 2010

The Regulations were published on January 25, 2010, and apply to financial statements filed on or after December 31.

These amendments mainly deal with adapting the Securities Regulations to IFRS, whereby, starting January 2008, companies are required to report according to the decision adopted by the Israeli Accounting Standards Board in November 2005, and according to Accounting Standard 29 which followed that decision. IFRS include a whole system of rules for recognition, measurement, presentation and disclosure, some of which differ from those prescribed under Israeli GAAP and the regulations
enacted under the Securities Law. These differences required a re-examination of all Securities Regulations so as to identify and correct any provisions which may contradict or be rendered superfluous by the adoption of IFRS. It was also necessary to examine the need for additional disclosure requirements, in addition to those prescribed under IFRS, in order to provide complete and satisfactory disclosure in financial statements. The amendment focuses on three levels: Cancelling regulations and provisions which conflict with IFRS; terminological and material adaptation of the remaining regulations to IFRS; and the addition of new regulations and provisions complementing the provisions set forth under IFRS. Furthermore, several additional amendments were made to the Regulations, unrelated to IFRS compatibility. These pertained to various phrasing clarifications mandated by ISA practice.

2. Proposed Legislation and Secondary Legislation

Proposed Primary Legislation

I. Streamlining of ISA Enforcement Procedures Bill (Legislative Amendments) of 2010
- Administrative Enforcement

The Bill was approved by the Knesset Finance Committee on September 14, 2010, and is expected to be submitted to the Knesset for its second and third reading.

The Bill aims to provide the ISA with enforcement alternatives, while creating efficient and effective tools for non-criminal enforcement. Through this bill, the ISA seeks to streamline enforcement, shorten the time between violations and the corresponding sanctions, and match the level of punishment to the violation. As a result, criminal procedure will only be pursued when appropriate. The amendment proposes two new enforcement mechanisms - administrative enforcement and an arrangement for avoiding or ceasing proceedings, under certain conditions (hereinafter - Enforcement Arrangement).

Administrative enforcement is designed to handle violations of securities laws which do not go above negligence. These cases will usually be processed through an administrative enforcement procedure, while severe cases, where the criminal offense is allegedly more grave, will be subject to criminal procedure. In order to address administrative violations, an administrative enforcement committee will be established, which will be authorized to impose various sanctions, including monetary sanctions and restriction of business for specified periods of time. The law will allow those presenting their arguments in writing to plead before the administrative enforcement committee. Due to the committee's limited authority to impose sanctions and the administrative nature of the proceedings, violators will not be granted defenses given to accused persons under criminal procedure.

Upon the amendment's approval, the ISA will have three concurrent enforcement mechanisms: First, a procedure for imposing monetary sanctions, designed to address violations which are relatively easy to investigate. Under this mechanism, the ISA proposes to increase the sanctions; expand its options for imposing financial sanctions on individuals; clarify its powers to reduce fines while exercising judgment concerning the extent of this reduction and subject to the relevant provisions to be prescribed in the regulations; and to differentiate between sanction brackets. Second, the administrative enforcement procedure, which allows the administrative enforcement committee to impose a series of sanctions addressing violations which
require significant investigation. However, this procedure is not intended for the more severe violations which require knowledge or intent on the part of the violator. Third, criminal procedure, which is designed to address severe violations, and which must be completed before prison sentences can be imposed. As part of this initiative, the ISA proposes, *inter alia*, to annul existing financial sanction and negligence violations prescribed in the securities laws, and increase the penalties prescribed for such violations, while distinguishing between companies and individuals. This change is designed to allow criminal enforcement to focus on those severe cases warranting incarceration. It is noted, that the proposed amendment sets certain limitations on mobility between the three enforcement mechanisms. The ISA also proposes a fourth mechanism - enforcement arrangements. Under this mechanism, the ISA Chairman will be authorized to decide not to initiate administrative investigations, administrative enforcement proceedings, or criminal investigations, or to cease any such proceedings initiated against violators or suspected violators. Instead, the ISA and the violator will reach an enforcement arrangement. This arrangement means that if the violator or suspected violator meets his obligations under the arrangement, he will not be subject to criminal or administrative proceedings for his actions. The violator's or the suspect's consent to the enforcement agreement will not be construed as a confession of the offense or violation and will not serve as evidence against him in criminal or administrative proceedings pertaining to those actions. The District Attorney's Office will also be granted this authority for cases submitted to its care (prior to filing an indictment).

m. **Securities Bill (Amendment 44) of 2010**

This Bill, submitted by MK Haim Katz, was approved by the Knesset on its first reading on December 7, 2010. The Bill was submitted to the Knesset for approval on its second and third reading on December 29, 2010.

The Bill seeks to determine that a controlling shareholder in a reporting company experiencing financial difficulties, who holds debt certificates issued by that company, will only be entitled to repayment of such debt after the company has fully repaid all obligations towards other holders of its debt certificates.

However, the Bill states that the above rule will not apply in cases where the controlling shareholder has held such debt certificates since their first issue, or if it is otherwise decided in a settlement agreement or arrangement approved by special resolution of the holders of the company's debt certificates, or in a settlement agreement or arrangement approved in accordance with Section 350 of the Companies Law. In addition, the Bill provides certain exceptions concerning the definition of the term "holding", as used in the Bill.

n. **Joint Investment Trust Bill (Amendment 15) of 2010**

The Bill was approved by the Knesset on its first reading on June 14, 2010, and is currently pending review by the Knesset Finance Committee prior to its second and third readings.

The Bill covers a large number of issues. The main issues covered by the Bill are regulating the offering of foreign fund units in Israel, so as to improve competition in the funds market in Israel. Improved competition will facilitate the Israeli market's integration in the global market and attract foreign participants. For the first time in
Israel, foreign fund managers will be able to offer their units to the Israeli public according to a prospectus published abroad, while foregoing application of Israeli law (under the dual-listing model). This option will be made available, provided that the foreign funds meet the criteria set forth in the Regulations concerning, *inter alia*, the following: the law under which the foreign fund was established, or which applies to its operations; supervision of the foreign fund; the characteristics of the fund and the fund manager.

In addition, the Bill proposes that the eligibility conditions and reporting requirements for trustees be changed, so as to guarantee, *inter alia*, trustee independence from fund managers. These changes are further intended to clarify and establish supervision requirements for fund trustees, thus increasing supervision over fund managers.

Additional matters which are to be regulated under the Bill: Laying the groundwork for increasing control, supervision and auditing of fund managers; revoking the requirement to convene general meetings in adopting certain extraordinary resolutions, such as fund mergers and splits; changing the fund liquidation mechanism in order to make it more efficient and balanced; guaranteeing disclosure of critical information regarding material changes in the fund to unit holders.

**o. Securities Bill (Amendment) (Debt Certificates) of 2009**

The proposed amendment aims to reinforce the status and roles of debt certificate trustees and to expressly anchor their duty to oversee issuers' compliance with their overall obligations towards debt certificate holders. The Amendment clarifies that trustees must act carefully and thoughtfully, without preferring the interests of one holder over another, and without any considerations that are not directly due to the holding of debt certificates. The Amendment further proposes that a statutory trustees registry be established, and that prerequisite and eligibility requirements be prescribed for those seeking inclusion in the trustees registry. Registration would be a prerequisite for trustees to serve as trustees for debt certificates issued to the public.

Concurrently, the Amendment proposes that the status of debt certificate holders be reinforced, and that they be granted a number of cogent rights as regards debt certificates. This would be realized, *inter alia*, by determining certain circumstances that would grant holders grounds to call for immediate repayment of debt certificates.

Furthermore, the Amendment proposes that the Minister of Finance be authorized to enact regulations providing for immediate reports by trustees to holders. These regulations would also determine the contents of annual trusteeship reports, so as to allow holders to supervise trustee activities, and replace trustees when necessary.

In order to complement this amendment, the Ministry of Justice and the ISA are acting to amend the Companies Law as regards corporate governance for bond companies (Amendment 13). This proposed amendment is designed to provide for additional matters concerning debt certificates, including the terms for convening extraordinary holders meetings. The Companies Bill (Amendment 13) of 2010, was approved by the Ministerial Committee for Legislation on December 20, 2010.
p. Securities Law Bill (Amendment) (Principal Shareholder Holdings) of 2010

The draft exposure for the bill was published on March 2, 2010.

The Bill proposes amending the definitions for the following terms: "Principal Shareholder", "Holdings", and "Acquisition", so that they cover additional cases, which fall under the scope of principal shareholder regulation. For example, as regards the definition for Holding, the Bill proposes that creditors be regarded as beneficiary holders of encumbered securities starting from the date on which such creditors first acted to exercise the liens, or starting from the date that they first exercised the voting rights attributed to the encumbered securities, the earlier of the two. As regards the definition for Principal Shareholder - this term is defined as a person who has a significant interest in a company's equity or voting rights (5%), or as a person who is a senior officer in the company (CEO or director). The Bill proposes that the definition also include cases of holdings in securities convertible into shares, in rights to shares or in debt, when the exercise or conversion of all the securities, rights or debts would result in holdings of 5% or more (assuming full dilution). As regards debt certificates, the Bill proposes that holdings of at least 15% in a debt certificate series shall be considered material. Material series shall be those series where a company's liability under the series constitutes at least 5% of its total liabilities, as prescribed by the Securities Regulations (Periodic and Immediate Reports) (Amendment) of 2010, approved by the Knesset Finance Committee on December 15, 2010. Additional information on these regulations is included in Section 25, under Proposed Secondary Legislation.

q. Administrative Powers of the Israel Securities Authority Bill (Legislative Amendments) of 2010

The exposure draft for the bill was published on May 6, 2010.

The Amendment aims to grant the ISA authority to issue administrative directives for all its supervised organizations, in a variety of fields and issues which are currently regulated under the Securities Law, the Advice Law and the Joint Investment Law. This arrangement is similar to the authority currently given to other regulators in Israel and abroad. The Amendment proposes a mechanism for issuing such directives, clarifying that this will not interfere with the ISA's authority to implement criminal enforcement against violators. As a complementary measure to this process, the regulations enacted by force of the above laws will be replaced with administrative directives.

Concurrently, and in order to ensure the ISA Plenum's involvement in the administrative enforcement regulation process, the ISA proposes to clarify the responsibilities of the ISA Plenum, as opposed to those of other ISA organs.

Additional amendments proposed under the Bill: formalizing the ISA's activities in responding to public pre-ruling queries; amendments to those matters to be included in the Tel Aviv Stock Exchange rules and regulations; and clarifications as to when the ISA must grant a supervised entity a full hearing, and when written explanations are to be deemed sufficient.

r. Regulation of Rating Agency Activities Bill of 2010

The draft exposure for the bill was published on June 17, 2010.
The Bill aims to lay the regulatory groundwork for supervising the activities of rating agencies. Globalization, developments in financial engineering, and the Basel II Accord have all enhanced the role played by rating agencies in recent years. During the “sub-prime crisis” and the subsequent credit crisis, flaws were uncovered in rating companies' activities. These flaws were expressed mainly in the limitations embodied in rating methods, in conflicts of interest and in the lack of transparency in the rating process. The main role played by rating agencies in these crises resulted in unanimous agreement among regulators in the US and Europe as to the need to re-examine and increase regulation in this field.

Following these events, it was decided that in Israel, too, there was room to update the regulation of rating agency activities, and to increase supervision over these firms. The Amendment aims to provide primary legislation, through a specific law, regulating the activities of rating agencies. This law will subject rating agencies to the ISA’s supervision, so as to protect investors and guarantee that the rating process and the rating itself are reliable, credible, equal, and independent. In light of international regulatory activities and the international nature of those rating agencies operating in Israel, the Bill proposes that the principles underlying regulation in Israel will coincide with existing and expected regulation in Europe and the United States.

s. Prohibition on Unfair Use of Information Bill (Legislative Amendments) of 2010

An amended exposure draft for the bill was approved by the ISA Plenum on October 24, 2010, and published for public comments. The amended exposure draft supersedes the previously published exposure draft.

First and foremost, the Amendment aims to prevent front-running by those managing other people’s money and their employees. Front-running refers to conducting transactions in a security following prior knowledge of another party’s actions in that security. Front-running, like use of inside information, harms capital market activities: Those conducting front-running transactions (hereinafter - front-runners) are in possession of information of which the counter-party is unaware. This information grants front-runners an unfair advantage.

Furthermore, the Amendment aims to establish a comprehensive and coherent arrangement for holdings and transactions in securities, which are currently regulated under the Advice Law and the Joint Investment Law.

The previous exposure draft in this matter also covered unfair use of information which does not constitute front-running (effectively an adoption of sorts of the American misappropriation doctrine). Following publication of the exposure draft, the ISA Plenum decided, at this stage, to address only those two issues detailed above (Plenum resolution dated October 24, 2010). An updated draft version of the Bill will be posted on the ISA website for public review prior to its submittal to the Ministerial Committee for Legislation.

t. Joint Investment Trust Bill (Amendment 16) (ILNs and ILFs) of 2010

The exposure draft for the bill was published on November 16, 2010.

The Amendment concerns the regulation of the ILN and ILF sector. The Amendment is necessary in light of the accelerated development of passive investment
instruments mainly tracking the securities, commodities and currency indexes (index-linked products or ILNs).

Current legislation creates a regulatory arbitrage between products which are extremely similar in nature and purpose. While the regulation of mutual funds under the Joint Investment Trust Law is detailed and binding, providing close supervision, ILNs - which offer an alternative to investing in mutual funds - are only subject to disclosure requirements. The Amendment aims to regulate the ILN market in a similar manner to that which currently applies to mutual funds, mutatis mutandis.

The Amendment further proposes to regulate a new financial instrument, known as ILF. ILFs shall constitute tracking mutual funds, whose units shall be listed for trade on the Tel Aviv Stock Exchange, and may only be purchased during the course of trading. The purpose of regulating ILFs is to establish a legal framework for a new financial instrument which will expand on the current financial instrument offering, allowing fair competition between alternative products, and rendering competition more effective. Regulation is also expected to allow ILN issuers to participate in the operation of ILFs, if they so wish.

u. **Regulation of Investment Brokers Bill of 2010**

The draft bill was approved by the ISA Plenum on February 21, 2010.

The Bill aims to amend and modify some of the existing arrangements concerning providers of investment advice, investment marketing, and investment portfolio management services. Furthermore, the new law is more expansive in scope, and will include additional investment middlemen, *inter alia* - brokers and dealers.

In this regard, the ISA notes the amendment concerning own-account trading and the proposed regulations in this field, which focus on alternative trading floors conducting own-account transactions. Regulation of trading floors and regulation of investment brokers are designed to complement each other (for more information concerning own-account trading floors, please see Section f above, under Primary Legislation, and Section 36 above, under Proposed Secondary Legislation).

In addition to regulation of broker activities, the Bill also sets out to lay the legal groundwork for establishing a supervisory council. This council is to be comprised of industry representatives, and will regulate and supervise all brokers on the market. The ISA will oversee the council’s activities, which are to be funded through membership fees.

Structural changes in recent years have led to a significant increase in the involvement and importance of license holders in the day-to-day activity on the capital market. The number of license holders has likewise increased significantly. In order to properly regulate and supervise all license holders (and in the future - many additional brokers, as proposed), the ISA will be required to invest significant additional manpower and resources. Although this can be achieved through increasing staff positions, cost-efficiency considerations, as well as other advantages, have led the ISA to recognize that a broad range of regulatory and supervisory functions should be carried out by a council which will also include industry players (similar to the US FINRA). This council will benefit from greater flexibility in regulating its supervised entities, which will allow it to react quickly to market and industry developments.
v. **Proposed Secondary Legislation**

**Securities Regulations (Signature Approver) (Amendment) of 2010;**

**Securities Regulations (Secure Email) of 2010;**

These amendments to the Regulations follow on Amendment 38 to the Securities Law, published on July 27, 2009. The Amendment is intended to allow the ISA to serve notices, demands, directives or any other document which the ISA is authorized to serve to supervised entities, by way of a secure email system, subject to such terms and characteristics as prescribed in the Amendment to the Law and the Regulations thereunder. This serves to complement the 2003 amendment concerning the requirement to report to the ISA using the MAGNA electronic reporting system. The Amendment is scheduled to come into effect together with the corresponding Regulations.

The Securities Regulations (Signature Approver) (Amendment) apply the arrangements prescribed for the MAGNA system to the secure email system, mutatis mutandis. Furthermore, the Regulations provide for system access authorization and corresponding data transfer procedures.

The Securities Regulations (Secure Email) provide for access authorizations to secure email accounts, frequency of access, and the duties of authorized persons. The Amendment requires, *inter alia*, that all supervised entities appoint an individual who will be authorized to access the secure email account. The Amendment further dictates that applications to register authorized persons as aforesaid shall be submitted to the ISA for approval. The ISA’s approval shall be given according to such terms and restrictions as detailed in the amendment to the Regulations.

The Securities Regulations (Signature Approver) (Amendment) were approved by the Science and Technology Committee on March 9, 2010; the Securities Regulations (Secure Email) were approved by the Finance Committee on May 4, 2010.

Ultimately, the Regulations were not published as the IT department in the Accountant General's Division of the Ministry of Finance (TEHILA) decided not to participate in the project’s implementation. As a result, the matter was submitted for re-examination by the ISA Information Systems Department.

w. **Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Regulations (Foreign Providers) of 2010;**

**Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Application for License, Examinations, Internship and Fees) (Amendment) of 2010**

Amendment 13 to the Advice Law (for more information, please see Section b above, under Primary Legislation) establishes an arrangement whereby foreigners holding "foreign licenses" to provide investment advice, investment marketing or portfolio management services (hereinafter - foreign providers), may offer their services in Israel without obtaining an Israeli license. This, provided that their services are rendered through a licensed company and to that company's clients. Licensed companies will be liable for services rendered by Foreign Providers and shall be required to oversee these services.
Section 10B to the Advice Law, as included in the amendment to the Law, states the prerequisites for licensed companies engaging the services of Foreign Providers. The regulations provide for licensed companies and foreign providers filing applications for inclusion in the Foreign Providers Registry. The regulations specify the documents and details which licensed companies and foreign providers are required to append to such applications. The additional amendment concerning applications for license, examinations, internship, and fees specifies the various application fees.

The amendment to the Regulations was approved by the Knesset Finance Committee on October 26, 2010, and is expected to come into effect 60 days from publication.

x. **Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus) (Amendment) of 2010**

Today, there is a global shift towards comprehensive disclosure which also covers various aspects of social responsibility, corporate governance, decision-making and conduct, community involvement and environmental protection. This has led to a worldwide trend, whereby more and more investors, including institutional investors and funds, also hold companies up to social, environmental, and other standards, to which they attribute a real influence on the future value of securities.

Accordingly, the Amendment sets out to expand the disclosure required of reporting companies under the description of their operations. This expansion adapts disclosure requirements to the shift towards providing greater disclosure on companies' material environmental risks and the resulting material exposures. In practice, companies have already adapted to this shift voluntarily.

The Amendment proposes, *inter alia*, that companies be required to detail the material environmental risks posed by their operations; material, environment-related statutory provisions applicable to their operations and their compliance with these provisions; statutory provisions expected to come into effect which will materially influence company operations; events which led to environmental damage for which the company has incurred a material exposure and is expected to be charged material amounts; material legal actions brought against the company; the company's policies for managing environmental risks; etc. These details are necessary, *inter alia*, for understanding and analyzing the material implications of environmental provisions on a company's capital investments, profits, and competitive position.

The amendment to the Regulations was approved by the Knesset Finance Committee on December 1, 2010.

y. **Securities Regulations (Periodic and Immediate Reports) (Amendment) of 2010;**

**Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus) (Amendment) of 2010;**

**Securities Regulations (Dates for Filing Notice of Principal Shareholder or Senior Officer) (Amendment) of 2010;**

The amendments concern a number of matters:
1. **Changes concerning the disclosure requirement for principal shareholder holdings**

Several changes are proposed to the disclosure provisions regarding principal shareholders. These include: determining that the requirement to report changes in principal shareholder holdings (in prospectuses and as part of the current reporting) shall also apply to changes in holdings in securities which are not shares or securities convertible into shares; that the disclosure requirement regarding principal shareholder holdings shall also apply to the holdings of senior officers; that when principal shareholders are companies, and there is no controlling shareholder in those companies, details will be provided for all principal shareholders in those companies; to expand the allowances granted to banks and insurers (cumulative weekly reporting) so as to also apply to broader institutional reporting groups (in Israel and abroad), and prescribe monthly reporting requirements instead of weekly reports for these groups.

2. **Disclosure concerning self-acquisition plans**

The Amendment proposes that the Regulations establish an ISA directive issued pursuant to Section 36A(b) of the Law, whereby decisions concerning planned acquisition of securities by a corporation or a company under its control shall require an immediate report. This report is to include details such as the scope of the plan, its commencement date, its grounds, etc. A similar reporting requirement shall be prescribed for the board of directors' report (quarterly and annual) concerning all acquisition plans reported during the reporting period or in effect at the reporting date, including details on the actual implementation of these plans. The Amendment further proposes that decisions to terminate or change plans will also require an immediate report.

3. **Disclosure of liabilities by repayment date**

The Amendment establishes an ISA directive issued pursuant to Section 36A(b) of the Law, concerning disclosure of company liabilities by repayment date. The Regulations follow the ISA directive in stating that reporting companies are to publish reports along with their quarterly or annual statements, which shall detail their liabilities for the next five years and onwards. Liabilities are to be detailed by repayment date, while differentiating between a corporation's own liabilities and the liabilities of its consolidated companies. Liabilities are furthermore to be broken down according to the following classes: debt certificates issued to the public; private debt certificates; off-bank credit; liabilities to banks in Israel; liabilities to banks abroad; and off-balance sheet credit risks (financial sureties and obligations provided against credit). The information required by the ISA directive has assisted the public and other regulators in tracking the development and repayment of company debts. In addition, the Regulations mandate that such a report also be made upon a company's initial public offering (IPO). This additional requirement is based on the approach that the information disclosed in the report is relevant for investors, and in the case of an IPO - is not concentrated elsewhere in another report.

4. **Timing for filing immediate reports**

The Amendment proposes to cancel the limitation whereby companies which filed immediate reports with the Stock Exchange in the half hour prior to trading or during the course of trading, must wait at least thirty minutes until publishing
the reported information through other channels. In light of the electronic reporting mechanism, this limitation is no longer justified.

5. Reporting changes in capital

Regulation 31 of the Securities Regulations (Periodic and Immediate Reports) of 1970, requires companies to file immediate reports whenever changes occur in their registered or issued capital. For economic reasons, and subject to several limitations, the ISA proposes an allowance whereby changes of less than 1% in the issued share capital are to be reported in a monthly summary report.

The amendments to the Securities Regulations (Periodic and Immediate Reports) of 1970, and the Securities Regulations (Details, Structure and Form of a Prospectus and Draft Prospectus) of 1969, were approved by the Knesset Finance Committee on December 15, 2010.

The proposed amendment concerning the dates for filing notices is still pending review by the Knesset Finance Committee.

2. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Services Regulations (Application for License, Examinations, Internship and Fees) (Amendment) of 2010;

Securities Regulations (Annual Fee) (Amendment) of 2010

The Advice Law mandates that licenses to provide investment advice, investment marketing and investment portfolio management services be granted subject to passing professional examinations and completion of internships. The proposed Regulations implement changes in licensing examinations and internship programs. These changes are aimed at increasing the professional level of license holders in accordance with the Advice Law, while simplifying licensing procedures.

In addition, the Amendment proposes changes in the fee mechanism applied to license holders and applicants. Among other things, the Amendment proposes that differential fees be applied to license holders, new fees be imposed, and existing fees be increased. Fee increases are designed, inter alia, to negate the unreasonable gap between the fees charged of fund managers, which are substantially higher than those charged of license holders. The complementary amendment proposed for the Securities Regulations (Annual Fee) of 1989, reduces the annual fee paid by fund managers.

The proposed amendment is pending review by the Knesset Finance Committee.

aa. Securities Regulations (Periodic and Immediate Reports of Foreign Corporations) (Amendment) of 2009

Under the current Regulations, foreign corporations reporting according to Chapter E(3) or Chapter E(4) of the Securities Law, must file immediate reports at such times as prescribed by Israeli law. This is in contrast to periodic reports, which must be filed at such times as required by the applicable foreign law. This arrangement places a significant burden on corporations, in particular when the reporting entity must report at a time which does not fall within its business hours. In addition, corporations are vulnerable to possible claims of providing Israeli investors with preferential information whenever the report in Israel is filed first. Finally, the current arrangement does not coincide with the trend towards globalization in the
capital market. The Amendment proposes to change the current arrangement and to
determine that the timing for foreign corporations filing periodic and immediate
reports be determined by the foreign law.

The proposed amendment is pending review by the Knesset Finance Committee.

bb. Securities Regulations (Offer to the Public) of 2010

Section 17C of the Securities Law states that offers to the public must be uniform in
price and in all other aspects, and must be open to everyone. Regulation 11(A)(3) to
the Securities Regulations (Offer of Securities to the Public) of 2007, provides for an
exception to this rule.

The ISA proposes to amend Regulation 11(A)(3) so as to make an exception to the
uniform offering rule, whereby non-uniform offers may be made in the following,
specifically justified cases: A. Exchange purchase offers meeting the requirements of
the Securities Regulations (Purchase Offer) of 2000. The ISA further proposes to
determine that purchase offers for debt certificates - which in all other respects are
identical to purchase offers - shall be considered as permitted non-uniform offers. B.
Offering of securities as part of a merger - In those cases where the securities are
offered to the holders of securities in the target company in consideration for their
currently-held securities, the offer will be permitted by virtue of the first exception.

It is further proposed to determine that the ISA may set terms for granting a permit
to issue a prospectus as part of a non-uniform offering.

The proposed amendment is pending review by the Knesset Finance Committee.

cc. Securities Regulations (Reduction of Financial Sanctions) of 2010

The Securities Law (Amendment 33) of 2007 was published on May 30, 2007, and laid
the groundwork for imposing financial sanctions on certain violations of the
Securities Law. Section 52R(c) to the Securities Law authorized the Minister of
Finance, with the Minister of Justice's consent, to enact regulations specifying the
criteria for lowering the prescribed sanctions. The recently published Regulation of
Investment Advice, Investment Marketing, and Investment Portfolio Management
Services Law (Amendment 13) of 2010, (for more information, please see Section b,
under Primary Legislation), grants the Minister of Finance further authority to enact
regulations for decreasing civil fines imposed under the Advice Law. Furthermore,
Amendment 13 includes an indirect amendment to the Securities Law (Amendment
39), which clarifies that authority to reduce sanctions, both under the Securities Law
and under the Advice Law, includes authority to determine maximum reduction
rates, as opposed to fixed reduction rates. The bill pertaining to administrative
enforcement procedures (please see Section l, under Proposed Primary Legislation),
clarifies that the powers to enact regulations for reducing sanctions according to
maximal reduction rates, shall also apply to financial sanctions prescribed under the
Joint Investment Law. The bill also significantly increases the financial sanction
amounts which the ISA may impose. Implementation of the amendment increasing
the financial sanctions depends on these sanction-reduction regulations coming into
effect.

The proposed regulations are pending approval by the Minister of Justice.
dd. Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Regulations (Reports) of 2010

The proposed regulations concern proper disclosure by license holders under the Advice Law. Proper disclosure is dealt with on three levels: First - quarterly reporting by portfolio managers to clients concerning managed portfolios; second - publication of annual reports concerning portfolio management companies, which shall be similar in nature to prospectuses; third - reporting to the ISA by all license holders.

Currently, the reporting requirements prescribed by law for license holders are extremely limited. For example, the law does not require portfolio managers to provide clients with disclosure on the return yielded by the portfolio over a certain period of time. Nor is any disclosure required on whether the client gained or lost money over a given period. Furthermore, the reports currently sent to clients are not uniform in format or content. As a result, it is difficult for clients to locate essential information, even if such information is included in the report. Uniform and comparable information is not available to potential clients either, who thus do not have adequate tools to choose between licensed companies as each company determines the content which it presents to potential clients and the manner in which it is presented.

The guiding principle in determining reportable matters is the balancing of information that is crucial for the client, the public, and the ISA, and the need for avoiding disclosure of the license holder’s commercial information. Disclosure requirements are further guided by a desire not to over-burden license holders.

Regulation will bind license holders regarding both content and format of the disclosure. I.e., the reporting format to be prescribed under the regulations will be binding. This reform coincides with other processes taking place in the ISA recent years, both as regards the extent of disclosure required of supervised entities, and as regards establishment of a uniform reporting format.

The proposed regulations have been submitted to the Ministry of Finance.

ee. Securities Regulations (Stabilization of Prices) of 2010 and Securities Order (Amendment of the Fifth Schedule to the Law) of 2010

As part of the underwriting reform, the ISA decided to adopt rules enabling underwriters to stabilize the prices of securities in an offering, provided certain conditions are met. To this end, Section 54(A)(2) to the Securities Law was amended so as to determine that any person acting according to the stabilization regulations will not be regarded as deceitfully influencing fluctuations in the prices of the stabilized securities. The proposed regulations complement this change and prescribe the rules referred to by the amendment to the Law. The ISA further proposes to amend the Fifth Schedule to the Securities Law, so as to enable financial sanctions to be imposed on underwriters who violate some of the Regulations.

The Amendments have been submitted to the Ministry of Finance.

ff. Joint Investment Trust Regulations (Fund Manager Participation in Holder Meetings and in Votes Approving Special and Complete Purchase Offers and in Votes Approving Principal Shareholder Transactions) of 2010;

Joint Investment Trust Regulations (Reports) (Amendment) of 2010;
Joint Investment Trust Regulations (Details, Structure and Form of a Fund Prospectus) (Amendment) of 2010

Section 77 to the Joint Investment Law provides for participation of fund managers in the general meetings of companies whose securities are held by the managed funds. Amendment 15 to the Joint Investment Law proposes that Section 77 be amended, so that instead of the existing arrangement, the Minister of Finance will be authorized to enact regulations providing for a more specific arrangement, while taking into account the decision-making voting process.

This authority is to be granted in light of the recommendations submitted by the committee examining the measures needed to increase involvement of institutional entities in the capital market in Israel (the Hamdani Committee). The Hamdani Committee's recommendations pertained, inter alia, to the requirement that institutional entities, including mutual funds and provident funds, participate in shareholder and bondholder meetings of companies in which they hold voting rights; conflicts of interest which may affect their judgment in voting; permitting institutional entities to enlist the aid of professionals specializing in formulating voting recommendations; increasing institutional involvement in the appointment of directors, and particularly in appointment of external directors in public companies; and encouragement of proactive institutional involvement in other aspects of corporate governance.

Following these recommendations, the proposed regulations were formulated so as to require fund managers to participate and vote in holder meetings of those companies in which they hold voting rights; require fund manager boards of directors to formulate a voting policy themselves or through a professional service provider; and requiring that the manner of voting be disclosed. Furthermore, similar requirements are proposed for votes by fund managers upon approving special or complete purchase offers, and as part of the approval process for principal shareholder transactions under the Companies Regulations (Allowances for Principal Shareholder Transactions) of 2000.

The Amendment was approved by the ISA Plenum on January 24, 2010.

gg. Securities Regulations (Rules Concerning Remuneration and Expenses for Members of an Administrative Enforcement Committee) of 2010

These Regulations are ancillary to the Administrative Enforcement Bill (for more information, see Section l above - Proposed Primary Legislation), and regulate the remuneration and reimbursement of members of the administrative enforcement committee, which is to be appointed in accordance with the above bill. The Regulations propose that committee members be entitled to remuneration to the amount of NIS 500 for each hour’s work. This remuneration includes reimbursement for all expenses incurred by committee members in carrying out their duties.

The proposed regulations were approved by the ISA Plenum on March 21, 2010. The Regulations will be promoted according to approval of the amendment to the underlying law.
hh. Joint Investment Trust Regulations (Assets that may be Bought and Held by a Fund and their Maximum Amounts) (Amendment) of 2010;

Joint Investment Trust Regulations (Buying and Selling Prices of Fund Assets and Value of Fund Assets) (Amendment) of 2010;

Joint Investment Trust Regulations (Details, Structure and Form of a Fund Prospectus) (Amendment) of 2010

About two years ago, extensive amendments were made to the Joint Investment Trust Regulations (Assets that may be Bought and Held by a Fund and their Maximum Amounts) of 1994, (hereinafter - the Assets Regulations), which regulated a new kind of instrument - a fund of funds. A fund of funds is an open fund which may invest all of its assets solely in other funds, bank deposits, or cash. Funds of funds are split into two groups – Israeli and foreign. For Israeli funds of funds, investment is limited strictly to funds managed by the fund of funds manager. For foreign funds of funds, the fund manager may only hold funds established outside of Israel.

Under the proposed amendments, managers of Israeli funds of funds may invest in any open-ended fund which is not a fund of funds, including mutual funds which are not under their management. The new legal arrangement will allow all fund managers to diversify their asset portfolio in their fund of funds. This particularly applies to fund managers managing a small number of funds, who have relatively limited options for diversification through funds under their management.

The amendment was approved by the ISA Plenum on August 11, 2010.

ii. Securities Regulations (Underwriting) (Amendment) of 2010

The Amendment covers two issues: First - cancelling the residency requirement for underwriters. Currently, companies may serve as underwriters in public offers in Israel if they have registered as underwriters in Israel after having met the requisite conditions (hereinafter - the Primary Method). Alternatively, they may serve as underwriters if they are foreign underwriters which meet the applicable conditions specified in the Regulations (including authorization to act as underwriters in the major exchanges in the US or UK). One of the conditions for employing the Primary Method is an underwriter's incorporation in Israel. As the ISA believes that any underwriter which meets the requirements for Israeli underwriters should be granted entry into the Underwriters Registry, it proposes to cancel the requirement for incorporation in Israel. The Amendment was also requested by the OECD, as part of consideration of Israel's inclusion in the organization. Furthermore, the Amendment proposes to allow underwriters operating in other exchanges around the world, in addition to those listed above, to serve as underwriters in Israel, provided that in addition to meeting the terms of the Regulations, the ISA and the foreign authority in the underwriter's country of incorporation have signed a memorandum of understanding. These underwriters are also required to provide the ISA with confirmation that the law in their countries of origin allows Israeli court rulings to be enforced in their country of origin or in their place of business.

Second - underwriter integrity. Currently, the Underwriting Regulations prescribe a series of eligibility conditions which companies must meet prior to their inclusion in the Underwriters Registry. These include various conditions concerning insurance, equity, no conviction record, independent directors, etc. The Amendment sets out to
clarify that, upon examining an entity's application for inclusion in the Underwriters Registry, the ISA shall be authorized to check the integrity of the applicant, its controlling shareholder, or an officer in either of the above. This is similar to integrity requirements currently being established through other securities-related legislation and bills. In addition, the Amendment proposes that the ISA be authorized to strike an underwriter from the registry upon the occurrence of any of the circumstances which may put that underwriter's integrity into question, following a list of circumstances indicating flaws in integrity, which the ISA shall publish pursuant to its powers under the Securities Law. This list will serve the ISA in examining the integrity of all its supervised entities.

The amendment to the residency requirement was approved by the ISA Plenum on September 6, 2009, and the integrity amendment was approved by the ISA Plenum on June 9, 2010.

jj. Securities Regulations (Own Account Trading Floors) of 2010;

Securities Order (Amendment of the Seventh Schedule to the Law) of 2010

June 15, 2010, saw the publication of the Securities Law (Amendment 42) of 2010, which added Chapter G(3) to the Securities Law. Chapter G(3) concerns own-account trading floors, which are defined as computerized systems through which a person trades with his clients to his own account, or computerized systems enabling clients to trade through the system as aforesaid. For more information, please see Section f above, under Primary Legislation.

The amendment to the law was drafted as framework legislation, which includes regulatory principles for these floors, as well as all those matters which by nature must be included under primary legislature (mainly those matters pertaining to the granting or revocation of licenses). Therefore, the Regulations must include regulatory principles for own-account trading floors.

The proposed regulations address the following matters:

a. Leveraging - the proposed regulations state that the ratio between a transaction and its collateral will not exceed 1:25.

b. Conflicts of interest - trading floors are required to draft binding policies on conflicts of interest, including detailed disclosure of such conflicts of interest and procedures aimed at their minimization. This document will be part of the company's articles of association, and will be submitted to the ISA for approval. Furthermore, clients will be required to provide prior written consent to these policies. Trading floors will be prohibited from providing investment advice, investment marketing and investment portfolio management services.

c. The Regulations require trading floors to match transactions with client needs, and to verify client understanding concerning the risks embodied in the various transactions. The Regulations also provide for advertising and marketing by the trading floors.

d. The Regulations set forth procedures for licensing applications, filing reports with the ISA, and concerning the information which trading floors must bring to their
clients' attention. The Regulations also provide for the manner of handling client funds, record keeping, and recording of transactions.

Upon formulating the proposed regulations, it became apparent that the Seventh Schedule to the Securities Law must be augmented, so as to provide for additional administrative violations. Accordingly, these additions were made through the order amending the Seventh Schedule. The Seventh Schedule to the Securities Law lists various violations for which extended administrative enforcement procedures may be instituted by such a panel as dictated by the Streamlining of ISA Enforcement Procedures Bill of 2010 (for more information, please see Section I above, under Proposed Primary Legislation). The addition of these violations is required so as to allow administrative enforcement of the Regulations.

The proposed regulations were approved by the ISA Plenum on October 24, 2010. The set of regulations submitted to the ISA Plenum for approval did not include a chapter on stability requirements and fees, which will be added at a later time.

kk. Securities Regulations (Purchase Offer) (Amendment) of 2010;

Securities Regulations (Transaction between a Company and a Controlling Shareholder therein) (Amendment) of 2010;

Securities Regulations (Periodic and Immediate Reports) (Amendment) of 2010;

Securities Regulations (Private Offering of Securities in a Listed Company) (Amendment) of 2010.

The proposed amendments seek to regulate a number of matters, as follows:

a. In full or self purchase offers, or purchase offers made by a controlling shareholder, and in mergers and procedures pursuant to Section 350 of the Companies Law of 1999 (hereinafter - the Companies Law), following which a company turns private or is liquidated, the above amendments propose that the offering party's and the target company's board of directors (when the offering party is not the company) must submit a declaration that the offered price is fair.

b. In complete or self purchase offers, or purchase offers made by a controlling shareholder, and in mergers and procedures pursuant to Section 350 of the Companies Law, following which a company goes private or is liquidated, the amendments propose that target companies must publish a report disclosing material changes or developments that have occurred since the last periodic or quarterly report (similar to the requirement for companies issuing shelf registration reports).

c. In order to allow the board of directors to submit its declaration, and in order for the company to submit its updated report, as aforesaid in Sections A and B, the amendments propose extending the minimum period required between publication of the specification for the complete purchase offer, and the final acceptance date. This period is to be extended from 14 to 20 business days.

d. The proposed amendments award the ISA the power to grant specific exemptions from the ban on offering parties, corporations under their control or controlling
shareholders therein, to carry out transaction in securities included in the purchase offer (Regulation 24 to the Purchase Offer Regulations).

e. The proposed amendments clarify that a general update requirement applies to published reports and documents, on which investment or voting decisions are based, such that investors will have all relevant details upon making their decision or casting their vote.

f. In addition, the proposed amendments formalize a resolution adopted by the ISA Plenum in March 2009, which extends the scope of the Purchase Offer Regulations to include purchase offers to bonds not convertible into shares (hereinafter - straight bonds). However, it will not be possible to force the purchase of 5% of the remaining bonds.

The amendment was approved by the ISA Plenum on October 24, 2010 and published for public review.

II. Securities Regulations (Reports by Debt Certificate Trustees) of 2009;

Securities Regulations (Reports by an Issuer to a Debt Certificate Trustee) of 2009;

Securities Regulations (Registration and Capability Requirements for Debt Certificate Trustees) of 2009.

The regulations were approved by the ISA Plenum on March 30, 2009.

The proposed amendment to the Law concerning debt certificates and their trustees (for more information, please see Section o above, under Proposed Primary Legislation) proposes granting the Minister of Finance powers to enact regulations in various matters. These regulations are to detail the reporting requirements for trustees (towards the ISA and the public); reporting requirements for issuers (towards the trustee); and capability requirements for trustees (as regards equity, deposits, or insurance). A draft version of the regulations was submitted to the ISA Plenum for approval together with the draft version of the Law.

The enactment of the regulations will be promoted in conjunction with the approval of the amendment to the underlying law.

mm. Joint Investment Trust Rules (Tendering and Examination of the Relations between a Dealer and a Fund Manager) of 2010

On February 16, 2010, Amendment 14 to the Joint Investment Trust Law was published (for more information, please see Section a above, under Primary Legislation), which amended Section 69 to the Law. The Amendment aims to improve the manner in which the Law handles the conflict of interests inherent in a fund manager's engagement with a related dealer for the receipt of brokerage services for the managed funds. Under revised Section 69, fund managers will be required to conduct a tender prior to signing an agreement for brokerage services. However, the Amendment states that fund managers may contract overseas-listed dealers without tender for carrying out transactions in foreign securities. This, provided that the dealer is completely unrelated to the fund manager. Fund managers are further exempt from the tender requirement when contracting related dealers for a limited portion of the total transactions carried out in the fund's assets. Amendment 14 to
the Law authorizes the ISA to set rules for the tender process, rules detailing the circumstances in which dealers will be considered as being related to fund managers, as well as rules regarding a fund manager's engagement with a related dealer.

The proposed rules state that fund managers must conduct a tender that is open to all dealers, in a manner that is equal and fair, and provides, inter alia, for the following matters: Manner of publishing the tender documents; setting the prerequisites for proper rendering of services; manner of submitting bids to the fund manager; manner of selecting the winning bid; and notification on the results of the tender. The proposed rules further state that the contracting period with dealers is not to exceed three years, and propose various provisions for extending the contract period. In addition, the Rules propose extraordinary circumstances which will permit fund managers to contract with dealers without a tender for a limited period of time. The Rules further propose that upon one of four conditions being met, foreign dealers are to be considered as being related to a fund manager. The conditions examine, inter alia, whether a dealer manages investments for the fund manager; whether it is a principal shareholder in the fund manager or the trustee; whether an officer in the dealer is related to an officer or a controlling shareholder in the fund manager or the trustee; and whether the dealer has commercial ties with the fund manager, in addition to providing it with brokering services. These conditions are intended to guarantee that contracts not following a tendering process will only be signed for valid reasons and will be free of conflicts of interest resulting from any possible ties between fund managers and the controlling shareholders therein and foreign dealers and the controlling shareholders therein. This will serve to guarantee that unit holder interests will receive preference over those of fund managers and their controlling shareholders. As regards engagements with related dealers, the Rules state that such engagements will only be made for services rendered by the related company directly, or by a foreign dealer for transactions in foreign securities, as aforesaid.

The Rules were approved by the ISA Plenum on June 16, 2010, and are pending review by the Knesset Finance Committee.

**nn. Securities Regulations (Publication of Notices in the Press) (Amendment) of 2009**

Amendment 35 to the Law re-examined the scope and form of publications required to be made in the Press. The Securities Regulations (Publication of Notices in the Press) of 2008, which accompanied the amendment to the Law, changed the publication requirements which were then in effect, with a requirement to publish concise notices, mainly concerning company names, the types of reported events, and the places where the full information is accessible.

The ISA believed that these new format requirements could be abbreviated even further, without compromising notice clarity. To this end, the ISA formulated the present amendment.

A similar amendment was made to the Companies Regulations (Notice of General Meeting and Class Meeting in a Public Company) (Amendment) of 2010 [published on February 4, 2010, Kovetz HaTakanot (Collection of Regulations) 6865, p. 742]. The two amendments maintain uniformity between notices required under the Securities Regulations and the Companies Regulations, as aforesaid.
However, the proposed amendment to the Securities Regulations was rejected by the Knesset Finance Committee, and subsequently withdrawn.

**Securities Order (Amendment of the First Schedule to the Law) of 2010**

The First Schedule to the Securities Law lists various classes of investors which may be offered securities without requiring publication of a prospectus, in accordance with Section 15A(7) of the Law. These investors include institutional entities and investors who are able to make informed investment decisions, and who require a lesser degree of protection by law. Namely, these include joint investment in trust funds, provident funds or management companies, insurers, banking corporations, portfolio managers, investment advisors, etc. The Amendment proposes adding to this list individuals purchasing for their own accounts, who meet two of the three criteria concerning equity, expertise, and transaction frequency. The Amendment also proposes revising item (11) to the First Schedule, whereby corporations whose equity exceeds NIS 250 million are also included in the list of qualified investors. This item is to be revised so that the minimum equity requirement for inclusion in the Schedule as aforesaid will be NIS 50 million. This revision will enable smaller companies to be considered listed investors.

The Amendment was approved by the ISA Plenum on March 21, 2010, and published for public review.

**3. Directives in accordance with Section 36A of the Securities Law**

**a. New directives**

During the year, the ISA issued the following directives in accordance with Section 36A of the Securities Law:

(1) **Disclosure required in projected cash flow reports**

The directive was published on November 18, 2010.

In December 2008, Amendment 2 to the Securities Regulations (Periodic and Immediate Reports) of 1970 went into effect. The Amendment required reporting companies whose debt certificates issued and offered under a prospectus are held by the public to test for warning signs. If such warning signs are found, reporting companies must attach a projected cash flow report to their board of directors’ report, unless the board of directors has determined that there is no reasonable concern that the company default on its existing and expected liabilities during the projected cash flow period.

The directive sets criteria for the presentation of the projected cash flow report, including its underlying assumptions and the accompanying board of directors’ explanations.

It is clarified that if in the first six months of the projected cash flow period, a reporting company is required to repay a material liability, that reporting company must specify the repayment date of the material liability and disclose the specific sources of funds to be used for its repayment.
It is further clarified that - as part of the board of directors' explanations included in the board of directors' report in a company's annual report, if and to the extent that the board of directors has previously included a projected cash flow report, it shall also be necessary to include a table comparing those items for which actual performance has differed materially from the projection. The board of directors is further required to provide explanations for all such material differences as aforesaid.

(2) Disclosure of credit risks, market risks, and public holdings in financial instruments

The directive was published on February 3, 2010, and went into effect on May 1, 2010.

The fact that issuers of financial instruments are special-purpose companies with limited economic abilities requires that increased disclosure be made on the main risks embodied in their operations. Pursuant to this directive, issuers of financial instruments is required to disclose, as part of their monthly reports, the scope of public holdings and the sources of credit and market risks to which they are exposed. As part of their quarterly reports, issuers of financial instruments are required to disclose, inter alia, information on relevant credit risks, including a quantitative description of these risks. Furthermore, issuers are required to detail the relevant market risks, including a description of all backing asset classes, sensitivity tests to market changes, and fair value at risk for each financial instrument separately. As part of their annual reports, issuers are required to provide extensive disclosure on applicable credit risks, including qualitative information on their credit risk management policies, and information on credit risks embedded in those entities to which they are exposed. The directive further determines that material changes in credit risks, certificate series, companies or managing entities are to be disclosed by way of immediate reports.

b. Extended directives

(3) Disclosure regarding debt settlements

The directive was intended to supersede the ISA Plenum's decision of December 2002, concerning corporate disclosure requirements upon approving court-sanctioned settlements in accordance with Section 350 of the Companies Law of 1999. The directive further regulates the disclosure format for out-of-court (i.e. - not in accordance with Section 350 of the Companies Law) debt settlements implemented through changes to deeds of trust. These latter settlements have become more common following the economic crisis.

The directive defined debt settlements as changes in the terms of debt certificates, including the offering of other securities, which require the debt certificate holders' approval or an exchange purchase offer.

The directive states that companies experiencing financial difficulties, which are finding it hard to meet their original obligations towards the debt certificate holders and which are seeking to negotiate a debt settlement agreement with these holders, must provide disclosure which will allow holders to make a decision whether or not to approve the proposed debt settlement agreement. Such disclosure must include, inter alia, background information and the
circumstances which led to the company struggling to repay its original liabilities; the alternatives considered by the company while trying to find a suitable solution; the terms of the proposed settlement; details regarding the sources of income which the company intends to use to repay its obligations under the new terms and explanations why the company’s proposal is preferable for the holders over other alternatives (such as exercising collateral or filing a request for liquidation with the courts).

For debt settlements not due to financial difficulties, more limited disclosure requirements were prescribed.

The disclosure requirements in the directive are similar in nature to those prescribed in the Companies Regulations (Application for a Settlement or Arrangement) of 2002, which apply to the approval of court-sanctioned settlements in accordance with the Companies Law, with certain additions.

(4) Disclosure of dividend distributions

The directive was published and went into effect on August 6, 2009.

Section 302 to the Companies Law of 1999 establishes a rule whereby companies may make distributions (i.e. - distribute dividends or self-acquire shares or securities convertible into shares), provided two conditions are met (hereinafter - distribution tests): The distribution is made from company profits (profit test), and there is no reasonable concern that such a distribution will prevent a company from meeting its existing and expected obligations, when these become payable (solvency test).

Regulation 37 of the Securities Regulations (Periodic and Immediate Reports) of 1970 requires that immediate reports be made regarding board of directors' decisions to make distributions, including details on the balance of profits before and after the distribution. This disclosure is to include information enabling investors to assess the effects of the dividend distribution on a company's ability to meet its existing and expected obligations, when these become payable. Furthermore, the disclosure is intended to promote transparency in board of directors' actions, and in corporate decision making processes.

The directive established disclosure requirements for board of directors' examinations of whether their companies meet the distribution tests, and particularly - their compliance with the solvency test. Immediate reports on distributions are required, among other things, to include information on the distribution's effects on the distributing company's financial position, its equity structure, leveraging, liquidity, ability to continue existing operations, and its investment plans. Furthermore, separate details must be provided for cases where a board of directors, for the purpose of distribution, relies on a company's ability to dispose of assets or on sources of income derived from companies under its control.

(5) Disclosure of fair value of investment property

The directive was published on February 22, 2009, and applies starting with the 2008 annual reports.

IFRS allows investment property to be presented at fair value. Fair value is essentially based on estimates, assumptions, and various assessments. The
directive requires companies to provide disclosure allowing users of the financial statements to compare trends and changes in the fair value of investment properties, calculation of fair value, and other relevant data.

4. Judicial proceedings involving the ISA

Civil proceedings handled during the year

Administrative petitions and other proceedings of an administrative nature brought against the ISA

(a) Supreme Court Case 8137/10 Roy Vermus v. State Attorney's Office et al

This petition was filed by the former CEO of the Psagot Group against the State Attorney's Office; the ISA; the Apex Fund, which acquired control of the Psagot Group (hereinafter – the Acquirer); and Psagot Securities. The ISA conducted a criminal investigation against corporations and individuals in the Psagot Group. The petitioner was among the suspects in these investigations. Following the Apex Fund's suggestion that Psagot implement various corrective actions, the State Attorney's Office and the ISA stated their opinion that following these actions, the investigation against Psagot would be closed and no administrative action would be brought against it by the ISA. One of the corrective actions proposed by Apex and Psagot was the petitioner's dismissal from the Psagot Group. In his petition, the petitioner argues that the State Attorney's Office made the closing of the criminal investigation against the Psagot Group contingent on the petitioner's dismissal. In so doing, the petitioner argues that the State Attorney's Office overstepped its authority. The petitioner requested that his dismissal be overturned, and further complained against not being granted a hearing. In his application for an interim order, the petitioner requested that the respondents, jointly or individually, not take any action towards his dismissal until the petition is decided.

The ISA submitted its response to the interim injunction application. The Supreme Court, Hon. Judge Grunis, rejected the application for interim injunction and accepted the ISA's arguments. Among the Supreme Court's reasonings: a. The petitioner delayed the submittal of his petition - despite being aware for some time that the administrative authorities behind the investigation would not approve the acquisition under the terms accepted by the Acquirer if he continue serving as CEO of the Psagot Group, the petitioner filed his petition only after the transaction was completed. Under this transaction, the petitioner received amounts totaling tens of millions of NIS. b. It allegedly seems that the Acquirer would not have completed its part of the acquisition had the State Attorney's Office decided to initiate criminal proceedings against the companies in the Psagot Group, and it would seem that the crucial decision concerning the petitioner was made by the Acquirer and not the State Attorney's Office. c. The decision to terminate the petitioner's employment apparently pertains to labor law and contract law, and is not of an administrative nature. The Supreme Court noted that, as the application for interim injunction has been denied, and considering the grounds stated for this denial, the petition has, to a great extent, been rendered moot. However, considering, inter alia, the fact that the State Attorney's Office has not filed its reply to the petition (due to the labor dispute in the State Attorney's Office), the petition has been granted a panel hearing.
(b) Administrative Petition Appeal 7718/09 Baran v. ISA

An appeal to the Supreme Court on the district court's ruling concerning the ISA's decision to impose financial sanctions. The appeal was filed on the ruling handed down by Hon. Judge Solberg (Jerusalem Administrative Court) on July 28, 2009 in Administrative Petition 1092/09 Baran Group v. ISA. In this ruling, the court rejected an administrative petition filed by Baran against the ISA's decision to impose financial sanctions to the amount of NIS 388,800 on the petitioner. These sanctions were imposed following the petitioner/appellant's failure to report on the end of tenure of two external directors for a period of 56 days. In the appeal hearing, the appellant withdrew its appeal and the ruling handed down on the administrative petition remains in effect.

(c) Miscellaneous Appeal 274/09 Nova Star Mutual Fund Management Ltd. v. ISA

A civil appeal filed under the Joint Investment Law. In this appeal, the appellant contested a civil fine imposed by the ISA. The fine was imposed following misleading information published on the fund manager's website concerning the constitution of the company's investment committee, the fund's name, and its redemption price. Thus, the company violated Section 73(b)(2) of the Joint Investment Law, without approving the publication with the fund trustee as mandated by Section 73(a) to the Law. Following a hearing attended by both parties, which took place in the Jerusalem District Court, no summations were filed by the appellant, despite a court order. After a certain period of time, the appeal was dismissed.


This case contests a financial sanction of NIS 276,000 imposed on a portfolio manager in accordance with the Prohibition on Money Laundering Law. The sanction was imposed following violation of Sections 7 and 9 to the Prohibition of Money Laundering Law, and the Prohibition on Money Laundering Order (Identification, Reporting and Record Keeping Requirements of Currency Service Providers) of 2002. These violations were reflected in a series of flaws found in an audit, including client identification details which were not verified through those documents required by law; failure to identify a client in person; failure to obtain client signatures on declaration of beneficiary and controlling shareholder forms; failure to report dual accounts to the Prohibition on Money Laundering Authority; etc. The court rejected all of the appellant's arguments, both as regards the violations themselves, and as regards the amount of the sanction, and denied the appeal.

(e) Administrative Appeal 41278-04-10 Mivtach Shamir Holdings Ltd. v. ISA

This case concerns an appeal under Section 14A to the Securities Law, concerning the ISA's decision that the appellant's - Mivtach Shamir - statements were improperly prepared. This decision was based on the fact that, in its financial statements, the appellant's investment in Tnuva was not accounted for as an available-for-sale financial asset measured at fair value. Furthermore, in its financial statements, the appellant failed to include a valuation of Tnuva, nor did it disclose information on its investment in Tnuva, as required by the regulations. According to the Stock Exchange Rules and Regulations, the ISA's decision that the appellant's financial statements were improperly prepared entails suspension - and subsequently, delisting - of the
appellant's shares from trading. Following the court hearing, the ISA submitted its detailed reply to the appellant's arguments. Following the ISA submitting its reply as aforesaid, the appellant withdrew its appeal.

(f) **Originating Motion 50650-07-10 Mivtach Shamir Holdings Limited v. Apex Group and Tnuva Group**

This case pertains to Mivtach Shamir's application that the court declare that the implementation of a particular section in a memorandum of understanding signed by the applicant and the respondents (the Apex and Tnuva groups), whereby the latter are to comply with certain disclosure requirements concerning the Tnuva Group, does not constitute a violation of the said memorandum of understanding. The court was further requested to declare, that in order to implement this section, the respondents must provide the applicant, and so the public, information on the Tnuva Group, as required by law, including duly prepared financial statements of the Tnuva Group's associate entities. The ISA was defined as a "formal respondent" in these proceedings. These proceedings were ended by a commercial agreement signed between the parties without the ISA being required to state its position.

(g) **Administrative Petition 287/10 Landmark Group Ltd. v. ISA**

An administrative petition concerning a financial sanction of NIS 294,300, imposed on the company for delinquent filing of its 2008 annual financial statements, and its financial statements for the first quarter of 2009. The company argued, *inter alia*, that it was unable to file the statements, and raised additional arguments on the calculation of the sanction. The Jerusalem Administrative Court rejected the petitioner's arguments, ruled that it found no flaw in the ISA's decision, and dismissed the petition. The company appealed the decision to the Supreme Court (Administrative Petition Appeal 3338/10), but withdrew its appeal shortly thereafter.

(h) **Civil Appeal 3623/03, Civil Appeal 3643/03 ISA and the Commissioner of Banks v. the Association of Banks in Israel, and counter appeal**

The dispute pertains to a staff position circular published by the Supervision of Investment Advisors and Portfolio Managers Department (presently the Investment Department), also adopted by the Commissioner of Banks, concerning the interpretation of the term "investment advice". The need to publish the staff position circular was due mainly to the manner in which bank customers were provided with information on managed products, such as mutual funds. The Association of Banks in Israel filed an application for a declaratory ruling that the ISA was not authorized to publish the staff position circular and that the staff position circular itself is incorrect. All parties appealed the ruling handed by the district court. Many years went by without a ruling being given in this case. During this time, the Bachar Reform was implemented, in which the banks were required to sell their fund management and provident fund operations. Following the industry's re-structuring under the reform, the parties reached an agreed settlement which has been validated as an act of court. In this settlement arrangement, the district court ruling was annulled, and an agreed position was determined. For more information, please see Chapter V - Investment Department, under Judicial Proceedings Involving the ISA.
Various proceedings in which the ISA was requested to state its position

(a) Liquidation 34914-11-09 Leadcom Integrated Solutions Ltd.

A request by the applicant for an extension in publishing the company's immediate reports and financial statements - including its annual financial statements - until resumption of trading in its shares. The reason: The significant costs and administrative resources required by such action, at a time when the company has numerous creditors. The company ultimately filed an application with the ISA for an extension in filing its reports as required by law.

(b) Originating Motion 15811-03-10 Ziv Haft Trusts Company v. Holders of Bonds (Series C) in Engel Europe

An application for the issue of orders by the trustee for bonds (Series C), pursuant to Section 12(c) of the Trust Law, to act in accordance with the majority decision in a bondholder meeting, in spite of the decision being passed by a majority of less than 75%. The application further requests that the trustee be instructed not to include, in counting the votes, "tainted" holder votes, i.e. - votes allegedly tainted by conflicts of interest due to conflicting holdings. During the hearings in the application, the ISA stated its position on those matters under its jurisdiction, and the court decided not to count in the specific vote at hand, those votes cast by holders of conflicting interests, i.e. - holders who have another interest aside from their interest in the voting security, such as holdings in another bond series or share holdings in the company or an associate, in such manner that may influence their vote in the meeting of the relevant bond series.

(c) Liquidation 21520-05-10 Arazim Investments Ltd.

An application by the company to summon a meeting in accordance with Section 350 of the Companies Law, in order to approve a settlement agreement between itself and the holders of its bonds (Series 4). The application includes an acceleration of the dates for serving notice of meeting. After the company coordinated certain changes in the summons with the ISA, while providing disclosure on the bondholders' personal interest and adhering to those dates prescribed by the Companies Regulations (Notice and Advertisement of General Meeting and Class Meeting in a Public Company) of 2000, and the Companies Regulations (Written Vote and Statements of Position) of 2005, the ISA stated its position whereby it does not deem it necessary to state an opinion in these proceedings.

(d) Liquidation 32405-11-09 Landmark Group Ltd.

An application by the company to reach a settlement agreement with its creditors holding two bond series, and accordingly - an application to summon a creditors meeting and other instructions, including allocation of shares to the bondholder, and allocation of warrants to the controlling shareholder under various conditions. The ISA stated its position on the implications of the settlement agreement, including as regards the request for exemption from extraordinary purchase offer following the allocation of warrants to the controlling shareholder and as regards the interaction between Sections 328 and 350 of the Companies Law. In its position, the ISA detailed the principles concerning the corporate control market and the extraordinary purchase offer mechanism prescribed under the Companies Law. The ISA noted, that
the mechanism prescribed under the settlement agreement, granting future options to shares to the controlling shareholder under a settlement agreement made pursuant to Section 350, only reinforces the controlling shareholder's control of the company, and does not coincide with the extraordinary purchase offer mechanism under Section 328 to the Companies Law. The settlement agreement, as proposed, was not approved in the creditors meeting.

(e) Bankruptcy Case 2620/09 Sela Group

An application by the company to approve the sale of its operations and the sale of control in conflicting transactions, as part of a request for a settlement between the company and its shareholders under Section 350 of the Companies Law. In processing the report on the transaction for selling the company's operations to its controlling shareholder, questions surfaced concerning the value of these operations as determined in the valuation attached to the report. This valuation relied on a legal opinion that the company's board of directors cannot terminate existing management agreements with the controlling shareholder without the controlling shareholder's consent. In discussions with the company, the ISA adopted a legal position whereby in exercising the company's right to termination under the agreements, there is no need for obtaining the controlling shareholder's consent and/or alternatively, for bringing the termination for approval in a meeting of the company's shareholders, where the controlling shareholder can veto such termination. The ISA also adopted the position whereby the company's board of directors must act for the good of the company upon selling its assets, while maximizing proceeds on assets. In light of these positions, the company's board of directors decided to re-initiate negotiations with the controlling shareholder and decide on a new price for the transaction (the proceeds on the assets were doubled). Furthermore, the board of directors submitted the transaction for approval in a meeting of the company's shareholders convened as part of the settlement agreement approval process. The ISA’s position was submitted, at the court’s request, in response to an objection to the transaction raised by one of the shareholders. This objection pertained only to certain issues related to disclosure and proper conduct, and to decision making processes in the company's organs in light of the conflicting transactions.

(f) Originating Motion 42018-02-10 Shlomo Eliyahu Holdings Ltd. v. Bank Leumi LeIsrael

An application by a shareholder in the bank, pursuant to Section 65 to the Companies Law, to summon an extraordinary general meeting and appoint directors in the bank, while requiring interpretation of articles in the bank's articles of association (Article 87) and of Section 63 to the Companies Law. The ISA was requested to state its position, which was given as part of the hearing by way of a document submitted to the court. The ISA's advocated upholding the right of all shareholders to exercise their rights under the bank's articles to propose directors equally and as provided by law. This, by adhering to those dates prescribed in the law, and employing the mechanism for written votes in such a manner that the dates prescribed for the written voting mechanism receive precedence over the dates prescribed for summoning the general meeting. The court decided that the shareholder’s request to summon an extraordinary general meeting constitutes a
cogent right. However, those matters requested by the shareholder to be raised for discussion cannot be included in an extraordinary general meeting, but only in an ordinary general meeting. The court decided that the bank's board of directors must refuse the summons to meeting on those matters requested to be put on the agenda. However, once the board of directors summoned the meeting, it was bound to its decision. As regards the attempt to reconcile Section 63 of the Companies Law and Article 87 of the bank's articles of association, the court decided that there was no legal option for reconciling the two provisions when the court finds it clear that in any case of a conflict between cogent statutory provisions and an article in a corporation's articles of association, the cogent statutory provisions are to prevail. As such, and in light of the public and other implications of delving into such matters, the court has decided to reject the claim and allow delayed contention on the composition of the bank's board of directors.

(g) Civil Case 13970-11-08 Migdal Mutual Funds v. Boaz Yona et al

A proceeding between third parties concerning a claim in which gatekeepers (attorneys) are to be charged with negligence following inclusion of a misleading detail in a prospectus. Obtaining the ISA's position was considered, including as an amicus curiae. The ISA did not state its position.

(h) Liquidation 47595-08-10 Engel Resources

These proceedings concern the summoning of a creditors meeting and a shareholders meeting as part of a settlement agreement pursuant to Section 350 to the Companies Law - request for a settlement agreement between a company and its shareholders and creditors. These proceedings were required for approving the settlement agreement while bringing an investor to the company. The ISA submitted its position in brief, referring to the fact that the applicant failed to meet its reporting requirements by law when it failed to publish financial statements for the relevant period. The ISA further stated that flaws were found in the Company's published reports concerning the settlement agreement and the appointment of officers.

(i) Liquidation 35560-08-10 Sela Capital Real Estate and Aspen Group Ltd.

These proceedings concern a request by the Aspen Group Ltd., a minority shareholder in Sela Capital, to summon a shareholders meeting for approving a settlement agreement pursuant to Section 350 to the Companies Law. The settlement agreement includes an offer to shareholders to buy all their shares in the Company. The applicant has requested that the court approve the summons of the meeting as specified in the application - namely, as an acquisition - including forced acquisition of all shares in the company, in addition to other provisions, such as discarding the votes of a group of shareholders in the company due to conflicts of interest, and other provisions. The ISA submitted a detailed position concerning the various issues raised in the statements of arguments filed by the applicant and by Sela Capital Real Estate. The ISA's position analyzed the challenges posed by Section 336 to the Companies Law (purchase offers), and directed attention to Amendment 12 to the Companies Law, which improves the mechanism established under Section 336. Furthermore, the ISA referred to the importance of maintaining an effective corporate control market as a means for supervising executives and creating value...
for shareholders in companies in general and in particular - in companies without a controlling block. As regards the need for the company's approval to employ a settlement agreement in accordance with Section 350 of the Law, the ISA was of the opinion that there was no room to discriminate between minority shareholders seeking to carry out a complete purchase offer under Section 350 and a controlling shareholder seeking to do so, by instituting a hurdle such as the company's consent. Finally, the ISA referred to the settlement agreement itself, and made several comments concerning its specificity and the conditions which, subject to its approval, should be included therein. (The court decided the matter and rejected the request to summon the meetings). In its decision, the Court ruled that the middle ground for conducting a hostile takeover of shares is through Section 336 to the Law, which constitutes a specific settlement arrangement for these purposes. To this end, the court analyzed the provisions of the relevant sections and case precedents, and referred to the need to amend the proposed Companies Law. The court stated that a hostile acquisition of shares in a company cannot be included under Section 350. However, this applies to cases where there is difficulty employing Section 336 to the Law, which is not due to difficulty in meeting the conditions of the section itself but rather due to an inherent external difficulty, and when dealing with "friendly" purchase offers and not with hostile offers, i.e. - an offer to which the company consents, and at the very least - which is not against its will.

(j) Liquidation 4371-09-10 Alonei Meitar v. ISA

This case concerns the company's request to summon a meeting as part of a settlement agreement between the company and its creditors pursuant to Section 350 of the Companies Law, and further concerns a reporting exemption and a violation of a disclosure requirement. The ISA submitted its reply to the request, whereby it states that the company did not meet its reporting and disclosure requirements, both under securities law and under insolvency law. The ISA believes that holders of the company's securities were not provided the necessary data for making an informed investment decision. The court approved the summons on various grounds, including the pressing time constraints and the concern for the company becoming insolvent, in such a manner that would harm the investors.

(k) Liquidation 39284-07-10 Peleg Nia v. ISA

This case concerns a summons to meetings as part of a settlement agreement pursuant to Section 350 to the Companies Law, and concerning an exemption for controlling shareholders and other creditors. The ISA states its position, whereby it is necessary to apply Section 275, as part of the requested settlement agreement constitutes a transaction with a controlling shareholder, and concerning the classification of interests in the meeting.

(l) Liquidation 38141-09-10 Engineering and Contracting Ltd. v. Official Receiver and others

This case concerns approval of a settlement agreement under Section 350 to the Companies Law. The ISA stated its position concerning the Company's application for an extension in filing its financial statements. A notice was agreed upon by the ISA and the company, and filed, whereby the company would be granted a 60-day extension to publish its financial statements. If, during the last 30 days of the
extension period, an investment decision is made, the company is to publish its financial statements to the public.

(m) Liquidation 33126-11-10 Peer Stream Ltd.

This case concerns approval of a settlement arrangement under Section 350 to the Companies Law. The ISA stated its position in the following matters: the need to make a prohibited distribution which does not meet the requirements of the profit test specified in Section 302 to the Companies Law; an exemption granted to the Company's officers, providers of services to the company, its legal counsel and accountants from legal liability; exempting the Company from criminal liability; payments by the company for claims that were not brought against it but rather against providers of services to the Company; lack of details concerning the terms of the insurance policy which the Company intends to purchase under the settlement agreement; the meetings' classification and the lack of conditions which the ISA finds crucial for carrying out a purchase offer under Section 350. The company filed its response to the ISA’s position. The case is still pending decision.

(n) Liquidation 32405-11-09 Landmark Group

This case concerns approval of a settlement agreement under Section 350 to the Companies Law. In this case, the ISA submitted its position to the Court concerning the need for publishing the Company's financial statements prior to making investment decisions involving the Company. In light of the background and the specific circumstances of this case, and under the conditions prescribed by the court, the court approved the summons of a creditors meeting prior to publication of the company's financial statements.

Civil actions brought against the ISA

(o) Civil Case 1689/08 Mulkandov vs. Porush, Terry and ISA

A financial claim filed against the ISA, its former chairman and the former head of the Mutual Funds Supervision Department (presently part of the Investment Department). The claim argues for damages and loss of income due to the termination of an agreement between a fund manager and the claimant. The claimant alleges that this occurred following action taken by the ISA. The case is in the evidence preparation stage, and is nearing the end of the pre-trial stage.

Actions concerning civil fines and financial sanctions under the Joint Investments Law, the Advice Law, the Prohibition on Money Laundering Law and the Securities Law

For information concerning civil fines and financial sanctions under the Joint Investments Law, the Advice Law, and the Prohibition on Money Laundering Law, please see Chapter V - Investment Department – under Enforcement against license holders.

For information concerning financial sanctions under the Securities Law, please see Chapter IV - Corporate Finance Department - Enforcement – under Financial Sanctions.

Criminal proceedings

For information on indictments, pending cases and criminal rulings, please see Chapter VIII – under Criminal Enforcement.
VIII Criminal Enforcement

1. Criminal Indictments

In 2010, following investigations performed by the ISA, 13 indictments were filed by the Tel Aviv District Attorney's Office (Taxation and Economics Department), and one indictment filed in 2009 was amended:

a. In April, an indictment was filed in the Tel Aviv Magistrate Court against Yehoshua Zoller, Esther Tenzer and Yehuda Keren on suspected violations of the Securities Law of 1968 (hereinafter, in this chapter - the Securities Law), and the Penal Code of 1977 (hereinafter, in this chapter - the Penal Code). Dash Apex Holdings Ltd. (hereinafter – Dash Apex) is a public company engaged, inter alia, in provident fund management, investment management, financial advice services, transaction brokerage, provision of services to Stock Exchange members, and corporate investments. In 2005, Dash Apex was the controlling shareholder in Dash Securities and Investments Ltd. (hereinafter - Dash Securities), also a public company. During the relevant periods, the defendants, Zoller and Keren, were principal shareholders in Dash Apex, with Mr. Zoller serving as a director and as chairman of the board, and Mr. Keren serving as a director in the Company.

The indictment accuses the defendants of two charges: Under the first charge, Mr. Zoller and Mr. Keren are accused of violating reporting requirements and obtaining by fraud: Zoller and Keren are suspected of violating Section 53(a)(4) of the Securities Law - causing the inclusion of misleading information in a report; of violating Section 53(a)(2) and Section 16 of the Securities Law - causing the inclusion of misleading information in a prospectus; and of violating Section 415 of the Penal Code – obtaining by fraud. Zoller is separately suspected of violating Section 53(a)(4) and Section 37 of the Securities Law - failure to meet reporting requirements concerning changes in a principal shareholder's holdings.

The above accusations were based on the following facts: In July 2007, Dash Apex published an immediate report concerning an extraordinary private placement. The Tel Aviv Stock Exchange, as per its Rules and Regulations, approved the offered shares' listing for trading provided that the public float constitute 15% of the Company's offered share capital, post-placement (as the Company is a public company). Furthermore, in order to cause the public float to constitute 15% of the share capital, the Tel Aviv Stock Exchange made its approval contingent on prior dispersion of shares that would effect such a float, and on such dispersion being made strictly to third parties that are not principal shareholders in the Company. The Stock Exchange demanded that the Company disclose the manner of the dispersion by way of an immediate report. Dash Apex published an amended report to the private placement report and presented itself as intending to meet the terms prescribed by the Stock Exchange. However, in violation of the Stock Exchange’s requirements and contrary to the Company’s declarations, some of the shares were sold to “front men” acting on behalf of principal shareholders and senior officers of the Company. According to the indictment, Zoller arranged that Ms. Tenzer, with whom he was romantically involved, buy shares in dispersion on his behalf.

40 The number of indictments does not necessarily correspond to the number of underlying investigation files. At times, the Attorney's Office combines a number of investigations into a single indictment, or conversely, submits a number of indictments pertaining to a single investigation file.
and jointly with him. Furthermore, the two agreed to split between them any gains accrued on those shares. Furthermore, Mr. Keren made an arrangement with his brother-in-law whereby the brother-in-law would finance and carry out, on his behalf and jointly with him, the purchase of shares in dispersion. Furthermore, the two agreed to split their profits so that Mr. Keren would receive two thirds of the profits, while the brother-in-law would receive one third. In so doing, Zoller and Keren failed to report changes in their holdings as principal shareholders, so as to mislead a reasonable investor. Furthermore, Zoller and Keren signed a prospectus which stated that "dispersion was made to third parties, which - to the best of the Company's knowledge - are unrelated to the Company and its principal shareholders". The two signed the prospectus knowing full well that this statement constitutes false and misleading information. In addition, Zoller and Keren were accused of fraudulently obtaining the Stock Exchange's approval to list the shares issued through the private placement.

Under the second charge, Mr. Zoller and Ms. Tenzer are accused of using inside information. Zoller is accused of use of inside information by an insider - a violation under Section 52C of the Securities Law. Ms. Tenzer is accused of using inside information originating from an insider - a violation under Section 52D of the Securities Law. In May 2007, Dash Apex's board of directors convened and resolved that Dash Apex would carry out a full purchase offer of shares in its subsidiary - Dash Securities. The information concerning the decision to carry out a purchase offer constitutes inside information. Zoller was an insider in Dash Securities by virtue of his position in Dash Apex, which granted him access to the information. Furthermore, he was present in the board of directors' meeting and voted to approve the purchase offer. Zoller is suspected of meeting with Ms. Tenzer (with whom he was romantically involved at the time) immediately after the board of directors' meeting, and disclosing to her the inside information. Zoller is further suspected of encouraging Ms. Tenzer to immediately purchase the relevant shares on the Stock Exchange, prior to the publication of the information. Ms. Tenzer quickly purchased these shares, and sold the shares after publication of the immediate report concerning the purchase offer, making a profit in the process. Criminal Case 30453-04/10.

b. In May, an indictment was filed in the Tel Aviv Magistrate Court against Alon Wagner, Danny Bracha, Ravit Tal, Avraham Gueta and Itzhak Frankental on suspicion of violating the Securities Law and the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Services Law of 1995 (hereinafter, in this chapter - the Advice Law). The indictment concerns negotiations between Fox Ltd. and Memorand Management (1998) Ltd. (hereinafter - Memorand), for opening a chain of Fox stores in Russia and the former Soviet Union countries. Negotiations between the companies included an allocation of Fox shares to Memorand, and an option for Memorand to acquire additional shares in Fox in the future. Thus, the information concerning the negotiations between Fox and Memorand for opening a chain of stores in Russia, the information concerning the allocation of shares and the option for an additional acquisition of shares, all constitute inside information as defined in the Securities Law.

The first charge (against Wagner) concerns violations under Section 52D of the Securities Law and Sections 4(a) and 4(b) of the Advice Law. During the relevant period, Wagner served as a licensed portfolio manager, managing investment portfolios in securities for Mr. Nadav Grinshpon, who at that time served as CFO of Memorand and was exposed to inside information through participation in the aforesaid negotiations. Wagner is
suspected of receiving inside information from Mr. Grinshpon, and of using said information in purchasing Fox shares on the Stock Exchange (for information on the indictment and verdict given in the case of Mr. Grinshpon – please see below). In so doing, Wagner used inside information obtained from Grinshpon to trade in Fox's securities. Furthermore, he violated the provisions of the Advice Law whereby licensed individuals are prohibited from holding or purchasing securities for themselves. He also violated the provisions of the Advice Law whereby individuals are prohibited from managing investment portfolios in securities for relatives or for companies in which they or their relatives are controlling shareholders.

The second charge concerns Bracha, Tal, Gueta, and Frankental. Tal was an insider in Fox by virtue of her position as personal and administrative assistant to Mr. Harel Weisel, the controlling shareholder in Fox. Through her position in Fox, Tal was exposed to the aforesaid inside information, and is suspected of disclosing the said inside information to Bracha (her friend) and Frankental (her father), knowing that they will use and/or can reasonably be assumed to make use of the inside information. Therefore, Tal is accused of use of inside information by an insider, a violation under Section 52C of the Securities Law. At that time, Bracha worked in Rahkia Capital Markets Ltd., an investment portfolio management company. Bracha and Tal were romantically involved, and Tal is suspected of disclosing this information to Gueta, who was the controlling shareholder in the portfolio management company in which he was employed. Bracha and Gueta used the inside information which came into their possession, and traded in Fox's securities for their clients and associates, while being in possession of inside information. They are accused of using inside information originating from an insider - a violation under Section 52D of the Securities Law. Tal is furthermore suspected of disclosing the inside information to Frankental, her father. Under the Securities Law, Frankental, as Tal's father, is also considered an insider. Frankental used the inside information which came into his possession to trade in Fox's securities on the Stock Exchange, while being in possession of inside information. Therefore, he is charged with use of inside information by an insider, a violation under Section 52C of the Securities Law. Criminal Case 21548-06/10.

c. In June, an indictment was filed in the Tel Aviv Magistrate Court against Nadav Grinshpon pursuant to Section 52C of the Securities Law, on suspected use of inside information by an insider. Grinshpon served as CFO of Memorand Ltd., and participated in negotiations between Fox Ltd. and Memorand Ltd. for opening a chain of Fox stores in Russia. In these negotiations, Memorand was offered shares in Fox and an option to acquire additional Fox shares. This information constitutes inside information, as defined in the Securities Law. Through Grinshpon's participation in the negotiations with Fox, he was exposed to inside information. Grinshpon, an insider, disclosed the inside information concerning Fox to Mr. Alon Wagner, having reasonable grounds to assume that the latter would make use of this inside information. Wagner, who at the time served as a licensed portfolio manager, was a friend of Grinshpon, and managed investment portfolios in securities on his behalf. Wagner made use of the inside information. Criminal Case 21503-06/10.

In July, the Tel Aviv Magistrate Court accepted the parties' plea bargain and decided on Grinshpon's sentence. For more information, see below. Criminal Case 21503-06/10.

d. In June, an indictment was filed in the Tel Aviv Magistrate Court against Rafi Vickel, as part of a plea bargain, on suspected violations under Section 36 of the Securities Law and
Regulations, and a violation under Section 53(c)(8) of the Securities Law in conjunction with Regulation 36 of the Securities Regulations (Periodic and Immediate Reports) of 1970 (hereinafter, in this chapter - the Periodic and Immediate Reports Regulations). Vickel served as CFO of Tarbet Investment and Promotion Ltd. (hereinafter - Tarbet), a subsidiary of T.R. Avihai Investments (1999) Ltd., a company wholly-owned by Mr. Ronen Crystal. Vickel is accused of two separate charges: (1) The first charge concerns failure to report a withdrawal of funds. Vickel knew that Crystal unlawfully withdrew millions of NIS of the Company's funds for his personal use, and without approval by company organs. Vickel failed to report these withdrawals to the Company's board of directors, to the Stock Exchange, to the ISA, and to investors, as required by law. Vickel failed to make such reports, despite knowing that the withdrawals constituted an extraordinary and material event mandating disclosure. (2) The second charge concerns failure to report a bank guarantee undertaken by Tarbet. Vickel happened to discover that Crystal requested that a bank guarantee be issued from Tarbet's account towards another company with which he signed a personal agreement. Despite knowing that such action constitutes an extraordinary and material event mandating, by law, disclosure of the guarantee by way of immediate report to the Stock Exchange and the ISA, Vickel failed to report the issue of the bank guarantee to these authorities, and by extension - to investors. Therefore, the defendant failed to file an immediate report to the Stock Exchange and the ISA as required by law. Criminal Case 38691-07/10.

e. In September, the Tel Aviv Magistrate Court convicted Mr. Rafi Vickel based on his confession as part of a plea bargain, of those violations of which he was indicted, and determined his sentence. For more information, please see below. Criminal Case 38691-07/10.

f. In July, notice was filed with the Tel Aviv Magistrate Court concerning an amendment to the indictment, whereby Ishay Spiegel will be added to the indictment concerning Ronen Crystal (for more information, please see 2009 Annual Report, p. 122, Section N). Criminal Case 40610-12/09.

g. In July, an indictment was filed in the Tel Aviv District Court against Yaron Gueta, Alon Sharon, Yaniv Tovim and Nir Sharon on suspected violations of Sections 29, 34B, 393 and 425 of the Penal Code, Section 54(a)(2) of the Securities Law, and Sections 3(a) and 3(b) of the Prohibition on Money Laundering Law of 2000 (hereinafter, in this chapter - the Prohibition on Money Laundering Law). During the period referenced in the indictment, Mr. Gueta worked for U-Bank, and supervised "market making" operations in government bonds. Gueta was exclusively responsible for managing U-Bank's market making account (hereinafter – the Market Making Account) and traded in government bonds as per his own discretion and in order to yield profits for the bank. Gueta and Mr. Alon Sharon collaborated in embezzling U-Bank’s Market Making Account, for which Gueta was responsible. The two opened an account in Gaon Investment House (hereinafter - the Gaon Account). As part of their scheme, the two carried out coordinated transactions in government bonds between the Gaon Account and U-Bank's Market Making Account. These transactions were made to appear as real, random transactions between knowledgeable, willing parties. However, the two coordinated the transactions so as to yield them guaranteed profits, and guaranteed losses to the U-Bank account. The theft was characterized by "circular trading" - first, the two entered buy orders for government bonds from the Gaon Account, against sell orders for the same bonds entered from the Market Making Account. Purchases were usually made at lower
prices, and the two would subsequently enter cheap sell orders from U-Bank, which would immediately be picked up by orders entered from the Gaon Account. Then, the two would enter sell orders for the same bonds, acquired at a low price from the U-Bank account, but at a higher price. Against these orders, they would enter buy orders for the same bond in the U-Bank account. Sale of these bonds from the U-Bank account at a lower price, and the subsequent re-selling of the same bonds from the defendants' account to the U-Bank account at a higher price effectively resulted in circular trading between the two accounts, which yielded guaranteed profits to the defendants. This, as the average price of the first coordinated transaction was lower than that for the second coordinated transaction. The profits accumulated in the Gaon Account through these transactions constitute part of the stolen amounts. The scheme exposed the public to false trading data, which created a false representation of active and proper trading in securities, while abusing the trading method in order to yield the defendants guaranteed profits.

Therefore, Gueta and Alon are charged with numerous violations: theft by agent (Section 393 in conjunction with Section 29 and Section 34B of the Penal Code); numerous counts of deceit and breach of trust in a body corporate (Section 425 in conjunction with Section 29 and Section 34B of the Penal Code); 354 counts of fraudulently influencing fluctuations in the prices of securities (Section 54(a)(2) of the Securities Law in conjunction with Section 29 of the Penal Code). Furthermore, the two were charged with violations under Section 3(a) of the Prohibition on Money Laundering Law in conjunction with Section 29 of the Penal Code and Section 3(b) of the Prohibition on Money Laundering Law. The indictment alleges similar activities carried out by Yaniv Tuvim and Nir Sharon, who collaborated with Yaron Gueta and ran the scheme by way of circular trading. As such, Gueta is charged with numerous counts of theft by agent (Section 393 of the Penal Code) and numerous counts of deceit and breach of trust in a body corporate (Section 425 to the Penal Code). In addition, Gueta, Yaniv Tuvim, and Nir Sharon are charged with 74 counts of fraudulently influencing fluctuations in the prices of securities (Section 54(a)(2) of the Securities Law in conjunction with Section 29 of the Penal Code). Criminal Case 9883-07/10.

h. In July, an indictment was filed in the Tel Aviv Magistrate Court against TRD Instruments Ltd. (hereinafter - TRD), Zvi Davidovitch, Israel Ramot, and Michael Barzel on suspicions of failure to meet the provisions of Section 36 to the Securities Law and Regulations in conjunction with Section 53(a)(4) of the Securities Law. TRD was accused of violating the above sections in conjunction with Section 23 of the Penal Code. On April 3, 2006, TRD went public, issuing its shares on the Stock Exchange. Defendants Davidovitch and Ramot are among the Company's founders and its controlling shareholders, while Mr. Barzel served as an officer of the company.

The indictment accuses the defendants of three separate charges: First - in the Company's prospectus, Davidovitch and Ramot declared that the Company intends to use the proceeds of the issue in accordance with the board of directors' resolutions, and that the Company deals in medical instrumentation - in designing, developing, manufacturing, and marketing projection equipment and in medical instrumentation for root canal procedures. In contrast to this statement, after the Company went public, Davidovitch and Ramot transferred the bulk of the issue proceeds to Barzel, so as to manage an investment portfolio for the Company. The decision to appoint Barzel as manager of the Company's investment portfolio was not brought before the board of
directors. A decision was also made that Mr. Barzel would manage the investment portfolio in a speculative manner, which is liable to expose the proceeds of the issue to risks which differs from the impression formed by investors as to the utilization of these proceeds, and which changes the nature of the Company's business. These actions constitute events or matters outside the Company's ordinary business and/or which are liable to significantly affect the price of its securities. In so doing, the defendants caused the Company not to file an immediate report as required under the Securities Law and Regulations, and all so as to mislead a reasonable investor.

Second - on May 8, 2006, Barzel began investing through speculative channels such as investing in options on the derivatives market (hereinafter - investments in derivatives). Towards the balance sheet date, the portfolio's positions were closed, so that the Company's financial statements presented only relatively solid investments. Immediately after the balance sheet date, Barzel again began making speculative investments in derivatives, and the portfolio was again exposed to losses. The defendants did not include in the Company's board of directors' report any reference to the investments in derivatives and to the risks embodied in such investments. Through their actions, the defendants misled investors and the Company's bondholders, and concealed information that the proceeds of the issue were being invested in derivatives. In so doing, they caused the Company's financial statements for the second quarter of 2006 not to include accurate details, and concealed material information, all so as to mislead a reasonable investor. Therefore, the defendants are accused of including misleading information - both in the Company's financial statements and in the board of directors' report - with the intention of misleading a reasonable investor. They are further accused of failing to file an immediate report with the intention of misleading a reasonable investor.

Third - during the third quarter of 2006, the Company's investment portfolio began recording losses of NIS 1 million or more a day. Furthermore, in this quarter, the defendants decided not to report the fact that the investment portfolio is exposed to a broad spectrum of losses, and failed to report the investment in derivatives. Additional post-balance sheet losses incurred by the Company were likewise not reported. Therefore, here too, the defendants are accused of including misleading information - both in the Company's financial statements and in the board of directors' report - with the intention of misleading a reasonable investor. Furthermore, here too, they are accused of failing to file an immediate report with the intention of misleading a reasonable investor. **Criminal Case 3933-08/10.**

i. **In August**, an indictment was filed in the Tel Aviv Magistrate Court against Ilan Morgan on suspected violations under Sections 415, 424(1), 424(2), 425, and 393 of the Penal Code and Section 4 of the Prohibition on Money Laundering Law. In the period referenced in the indictment, Morgan was the controlling shareholder in a number of companies, including Morgan Lombard Global Investments Ltd. (hereinafter - Morgan Investments). The defendant served as an officer in Morgan Investments. During the relevant period, Morgan Investments was a licensed portfolio manager. The indictment concerns an investment plan offered by Morgan to Jewish orthodox investors. Morgan, sitting inside Morgan Investments' offices, loaned money from individuals in the orthodox Jewish community, under false promises that he would invest their money risk-free, and offer them a monthly interest rate that is higher than commonly available on the market. At the same time, he knew that there was no way to guarantee repayment
of the loans. Furthermore, Morgan promised that at the end of the loan term, he would return the amount given to him under the loan plan.

The defendant employed various methods in running the scheme, while making false representations: the defendant presented the plan as being of a religious nature, inter alia, by presenting approvals for the loan given by various rabbis, and promising that donations and tithes be contributed to orthodox collels (orthodox educational institutions); the defendant presented himself as having a wealth of financial experience and as an affluent individual, despite being without means and owing debts on the grey market; the defendant lied about the existence of collateral and guarantees securing repayment of the loans, lied about the existence of a trustee supervising these guarantees, and lied about an accounting firm being hired to appraise the value of the financial assets provided as collateral for the loans. In order to increase his credibility, Morgan paid some of the creditors moneys, which he presented as monthly interest payments and payments on principal, thereby convincing some of the creditors to extend their investment and even provide him with additional amounts. In addition, the defendant made representations whereby Morgan Investments, an ISA-supervised company, was involved in the loan plan, when in fact the companies listed in the loan agreements were other private companies with similar names to Morgan Investments. In this way, the defendant confused his creditors. Through these actions, Morgan caused Morgan Investments to incur financial damages, and damaged Morgan Investment's goodwill among investors, who believed that Morgan's portfolios were managed by the Company.

This investment plan led to the indictment, in which Morgan is accused of four different charges: The first charge concerns deceitfully obtaining the creditors' funds through an initial loan agreement. The initial loan agreement refers to a loan agreement signed by creditors with Morgan Lombard Capital and Trust Ltd. (hereinafter - Morgan Capital). The latter is a fictitious company established by the defendant "on paper", without registration with the Companies Registrar. Through this fictitious company, the defendant secured funds from the creditors, knowing full well that the company was entirely fictitious. The second charge concerns obtaining by fraud the creditors' funds through a subsequent loan agreement. The subsequent loan agreement pertains to a loan agreement which Morgan had creditors sign. This agreement was between the creditors and Morgan Lombard Financial Guarantees Ltd. (hereinafter - Morgan Guarantees). Under this agreement, the entity guaranteeing the loan was Morgan Lombard Liberty Trust and Financial Guarantee Ltd. (hereinafter - Morgan Trusts). According to the indictment, the defendant knew that Morgan Trusts was unable to serve as a guarantor. On the first and second charges, the defendant is accused of obtaining by fraud under aggravating circumstances (Section 415 of the Penal Code); offenses by executives and employees in a body corporate (Sections 424(1) and 424(2) of the Penal Code); and deceit and breach of trust in a body corporate (Section 425 of the Penal Code). The third charge concerns the theft of the creditors' funds. After the defendant deceitfully obtained possession of the creditors' funds as part of the loan plan, under the explicit condition that he invest those funds so as to yield such returns as prescribed under the loan agreements, the defendant embezzled those funds. Thus, Morgan is charged with theft by agent (Section 393 of the Penal Code). The fourth charge concerns money laundering. Section 3(a)(1) of the Prohibition on Money Laundering Law defines property originating in an offense as prohibited property. The moneys received by the defendant constitute "property" under Section 1 to the Money Laundering Law.
Laundering Prohibition Law. Thus, Morgan is charged with performing a transaction with property knowing that it is prohibited property (Section 4 of the Prohibition on Money Laundering Law). Criminal Case 16048-09/10.

j. In November, an indictment was filed in the Tel Aviv Magistrate Court against Michael Pulitzer on suspected violations under Sections 415, 425 and 423 of the Penal Code. Pulitzer, a seasoned and senior figure in the capital market, was employed by the Central Company for Stock Exchange Services (N.E.) Ltd. (hereinafter - the Central Company or the Company). The Central Company was acquired by Migdal Stock Exchange Services Ltd. (hereinafter - Migdal), which assumed the Central Company's position as a member of the Stock Exchange. Pulitzer was employed by the Central Company between 1993 and 2005. From 2004 and until the end of his employment with the Company, Pulitzer served as deputy CEO. Furthermore, Pulitzer was responsible for the bonds and short term loans trading room, and also served as the Company's chief dealer in these markets. Pulitzer was authorized, as regards bonds activities, to carry out transactions in the Company's own errors account. The Company maintains this account in order to correct errors in carrying out client orders in the Company's trading room. According to the indictment, in 2004, Pulitzer opened an account in the Company together with his brother-in-law, Mr. Shimon Lipiner (hereinafter - the Lipiner Account or the Account). The Account was opened under Lipiner's name in order to conceal Pulitzer's affiliation with the account. The two agreed that Pulitzer would carry out transactions in the account, mainly dealing in bonds, as per his own discretion. The two further agreed that they would divide any profits accrued in the account amongst themselves. Pulitzer devised a scheme, whereby he carried out daily transactions in the Lipiner Account, generally characterized by the sale of securities at a high price and the purchase of the entire amount at a low price, or vice versa. These transactions were carried out in such a manner that the defendant was to be "covered" at the end of trading by the quantity sold or bought. In addition, the Company's own errors account served as "insurance" of sorts for generating profit in the Lipiner Account, so that when Pulitzer was unable to generate a profitable transaction during the day, he used the own errors account and bought or sold to this account the bonds from the Lipiner Account at such a price as to guarantee his profit. In this manner, Pulitzer guaranteed that all transactions carried out in the Lipiner Account would yield profits. In addition, according to his scheme, Pulitzer ascribed only profitable, risk-free transactions to the Account, as no moneys or collateral were deposited in the Account. Through his fraudulent actions, Pulitzer gained NIS 720,000, for himself and for Lipiner. In so doing, the defendant breached his duty of trust towards Migdal, fraudulently obtained, under aggravating circumstances, Migdal's assurance that he was acting as required by law and Company procedure, and to the benefit of the Company. Furthermore, in his actions, the defendant acted to make false entries in corporate documents as regards the details of the Lipiner account, activities taking place therein, and its beneficiary. Criminal Case 48916-11/10.

k. In December, an indictment was filed in the Economic Section at the Tel Aviv District Court against Ami Gurevetz on suspicion of committing the following violations: prohibited activity by a license holder under Section 4(a) in conjunction with Section 39(b)(1) of the Advice Law; deceitful obtaining under Section 415 of the Penal Code; theft by agent under Section 393 of the Penal Code; and fraudulently influencing fluctuations in the prices of securities under Section 54(a)(2) of the Securities Law. Gurevetz is active and proficient in the capital market, and holds a license to manage investment portfolios. Inter alia, Gurevetz serves as an owner and instructor in the
Economic, Legal and Engineering Advice and Training Center, which provides capital market education in Jerusalem. Through these courses, the defendant gained the trust of some of his students, and began managing their investment portfolios. Furthermore, he managed portfolios for investors who contacted him of their own accord after hearing recommendations from colleagues.

The indictment accuses the defendant of four charges: The first charge accuses Gurevetz of carrying out activities prohibited for a license holder, as during the period referenced in the indictment he bought securities and held accounts in his name for trading in securities. These actions violate Section 4 of the Advice Law, which prohibits licensed portfolio managers from buying securities for themselves, except for State-issued securities. Under the second charge, Gurevetz is accused of deceitfully obtaining his students' consent to carry out transactions in their accounts. Gurevetz made representations to his students whereby he would act in good faith to their benefit and would yield them profits by managing their investments. The defendant did not disclose that he intended to carry out "self-trading" between the students' accounts and his own, or that he intended to carry out "short term trading" in their accounts in order to profit from the commissions and use their accounts for "circular trading" which would yield him profits at their expense. Under the third and fourth charges, Gurevetz is accused of theft by agent for his actions in the investors' accounts when he carried out, at his own discretion, hundreds of "self-trading" transactions. Using the internet, the defendant entered buy and/or sell orders from his accounts, while simultaneously or shortly thereafter entering opposite orders from investor accounts under his control. All the while, the defendant determined the number of the securities being traded and their price. In this way, the defendant carried out self-trading transactions between his own accounts and the investors' accounts under his control. Furthermore, under the fourth charge, the defendant is accused that, as part of these transactions, he carried out self-trading transactions whose cumulative effect resulted in "circular trading": The sale of shares from the investors' accounts to the defendant's accounts at a low price, and the return sale of those same shares from the defendant's account to the investors' accounts at a higher price, effectively resulted in circular trading between the investors' accounts and the defendant's. Through these transactions, the defendant generated continuous profits for his own accounts, at the expense of his investors. In addition, as a result of these fraudulent activities, the defendant generated fictitious trading volumes in securities, and fraudulently influenced fluctuations in the prices of securities. Criminal Case 29726-12/10.

I. In December, an indictment was filed in the Tel Aviv Magistrate Court against Meidad Dabash, Barak Aba Nahmani and A.B. Equity Investment House Ltd. (hereinafter - Equity) on suspected violations under the Securities Law, the Penal Code and the Advice Law. In the period referenced in the indictment, Meidad Dabash was employed as a mutual fund manager in Migdal Mutual Funds Ltd. (hereinafter - Migdal). Barak Nahmani, a licensed portfolio manager and advisor, was the owner and manager of Equity, a privately-held portfolio management company and a licensed portfolio manager, as defined in the Advice Law. The indictment accuses the defendants of three charges: The first charge accuses Dabash of use of inside information by an insider, a violation under Section 52C of the Securities Law; and deceit and breach of trust in a body corporate, a violation under Section 425 of the Penal Code. By virtue of Dabash's position in Migdal, Dabash constituted an insider in TAT Industries Ltd. (hereinafter - TAT), a public company (Migdal held 15% of TAT's shares). According to the indictment,
Dabash became aware, including through conversations with Mr. Israel Ofen, CEO of TAT, of negotiations for the sale of control in TAT. This information constituted inside information, as defined in the Securities Law. While in possession of inside information concerning the sale of control as aforesaid, Dabash recommended that Nachmani and another individual named Ilan Rajuan separately purchase TAT's shares and disclosed to each of them the inside information in his possession, all the while having reasonable grounds to assume that they would make use of the inside information. Rajuan was joint-owners, together with his brother, of a private company called R.S Food Import and Production Ltd. (hereinafter - R.S.). R.S. held a high-value securities and mutual funds portfolio. Rajuan managed R.S.'s securities portfolio and carried out numerous transactions in securities with Migdal, through Dabash. Acting on the inside information disclosed to them by Dabash, the two traded in securities aimed so as to generate profits for Dabash, Nachmani and Rajuan at the expense of Migdal and its mutual funds. Subsequently, TAT issued an immediate report concerning the sale of control in the Company, following which its share price rose by approximately 15%. The second charge accuses Nachmani and Equity of using inside information originating from an insider - a violation under Section 52D of the Securities Law. Nachmani, having been in possession of inside information concerning the sale of control in TAT, bought and sold TAT shares on the Stock Exchange with third parties. In light of Nachmani's position, his authority and responsibilities in managing Equity's affairs, his criminal actions and intentions must be regarded as criminal actions and intentions on the part of Equity. The third charge accuses Nachmani and Equity of prohibited activity by a license holder under Section 4(b) - a violation under Section 39(b)(1) of the Advice Law. In buying and selling TAT shares as per his own discretion in Equity's own account, Nachmani also violated the prohibition prescribed under Section 4(b) of the Advice Law, which states that licensed portfolio managers may not manage investment portfolios for companies under their control. Under Section 1 of the Advice Law, investment portfolio management is defined as executing transactions at the portfolio manager's discretion for the accounts of others. In light of Nachmani's position, his authority and responsibilities in managing Equity's affairs, his criminal actions and intentions must be regarded as criminal actions and intentions on the part of Equity. Criminal Case 27036-12/10.

m. In December, an indictment was filed in the Economic Section at the Tel Aviv District Court against Amnon Barzilay on suspected violations under Sections 415 and 425 of the Penal Code; a violation under Section 53(a)(2) in conjunction with Section 16(b) of the Securities Law; a violation under Section 53(a)(4) of the Securities Law in conjunction with the Securities Regulations (Transaction between a Company and a Controlling Shareholder therein) of 2001 (hereinafter - the Controlling Shareholder Transaction Regulations); and a violation under Section 53(a)(4) of the Securities Law in conjunction with Regulation 22 of the Periodic and Immediate Reports Regulations.

In the period referenced in the indictment, the defendant was the controlling shareholder in Metis Capital Ltd. (hereinafter - "Metis Capital"), a public company. Metis Capital held and controlled - in equal parts with Myrag Development Israel Ltd. - Japanauto Holdings Ltd. (hereinafter - Japanauto Holdings), a private company holding full control, through its subsidiaries, of Japanauto - Israel Auto Corporation Ltd. (hereinafter - Japanauto Auto). Through the defendant's holdings in Metis Capital, the defendant was also the controlling shareholder in Japanauto Holdings and Japanauto Auto. Furthermore, the defendant served as a director and acting chairman of the board in these companies during the period 2005-2006, except for the period between January
and May 2006, when he served only as an officer of the company. Later in 2006, and in 2007, Barzilay served as chairman of the board of these companies.

The indictment accuses the defendant of two charges: The first charge concerns obtaining by fraud and fraud as well as breach of trust in a body corporate. Trademobile Ltd. (hereinafter - Trademobile) provides trade-in services for private cars. In 2005, Trademobile's managers contacted the defendant and inquired as to possible collaboration between Trademobile and Japanauto Auto in providing services to Japanauto Auto's clients. The defendant made this collaboration contingent on Trademobile paying him one half of its profits from the joint operations with Japanauto Auto. This payment was to be made as consideration for mediating the transaction. Trademobile's owners accepted the defendant's proposal and the latter exploited his position as a controlling shareholder and an officer in Japanauto to effect the two companies' engagement. Barzilay, an officer in Japanauto Auto, did not disclose to the CEO of Japanauto Auto or to any of the Company's other organs his personal interest in Japanauto Auto's engagement with Trademobile. By so doing, he violated Section 269(a) of the Companies Law, and prevented the transaction's approval by the company's board of directors and general assembly. Such approval was mandated by the transaction constituting an extraordinary transaction, in which a company director had a personal interest (Section 272 of the Companies Law). Furthermore, the defendant participated in a meeting in which Japanauto Auto's continued engagement with Trademobile and the commercial terms of this engagement were brought before Japanauto Auto's board of directors for approval. By participating in the meeting, the defendant made a false representation whereby he was acting for the good of the company and out of purely commercial interests, while concealing the fact that he was affiliated with Trademobile through a brokerage fee arrangement and was expected to profit from the engagement's approval. As a result of this false representation, Japanauto Auto's board of directors approved the Company's continued engagement with Trademobile. After the engagement's approval, the defendant contacted Trademobile and demanded payment for mediating the transaction, in accordance with their pre-determined arrangement.

The second charge concerns reporting violations. In 2006, Japanauto Holdings became a reporting corporation, as defined in Section 1 of the Securities Law, after offering its securities to the public pursuant to a prospectus. According to the indictment, Barzilay's acts of fraud and concealment caused Japanauto Holdings' prospectus to include misleading information, as the prospectus did not disclose the defendant's personal interest as a controlling shareholder in Japanauto Holdings, in Japanauto Auto's engagement with Trademobile. In addition, through his actions, Barzilay caused the inclusion of misleading information in a report with the aim of misleading a reasonable investor, as Japanauto Holdings did not report Japanauto Auto's engagement with Trademobile as a transaction in which a controlling shareholder has a personal interest, in accordance with the provisions set forth in the Controlling Shareholder Transaction Regulations. Furthermore, Japanauto Holdings did not disclose the nature of the controlling shareholder's personal interest in the transaction, nor did it include the engagement with Trademobile in its periodic reports. Through his fraudulent actions, the defendant caused a violation of reporting requirements with the aim of misleading a reasonable investor. Criminal Case 51394-12/10.

n. In December, an indictment was filed in the Economic Section of the Tel Aviv District Court against Yaacov Kaufmann (hereinafter - Yaacov) and Yerushalaim (Jessy)
Kaufmann (hereinafter - Yerushalaim). Yaacov is suspected of violations under Sections 393, 415 and 425 of the Penal Code and violations under Section 54(a)(2) of the Securities Law. Furthermore, he is suspected of violations under Section 2(b) in conjunction with Section 39(a)(1) of the Advice Law, Section 9(a) in conjunction with Section 39(a)(3) of the Advice Law, and Section 4(a) in conjunction with Section 39(b)(1) of the Advice Law. Yaacov and Yerushalaim are suspected of a violation under Section 52(l) in conjunction with Section 53(b)(8)+(9) of the Securities Law. Yaacov has experience trading on the capital market. He worked in the First International Bank of Israel and holds a license to provide investment advice. Yaacov served as an investment advisor in the bank’s corporate trading room, and advised high-volume clients on investments in securities. As part of his duties, Yaacov served as the trading room’s contact person for providing investment advice and trading in securities for clients of the trading rooms of Mifal HaPais, Karnit Road Accident Victims Compensation Fund, Shopping Channel Ltd., Haifa Early Pensions Ltd., and Manor Holdings B.A. The indictment accuses Yaacov of embezzling the funds of these clients as well as the accounts of additional incidental clients (which he was effectively authorized to access). Yaacov traded in his clients’ accounts, abusing their trust so as to profit at their expense. Yaacov carried out his fraudulent actions by carrying out "coordinated transactions" - entering buy or sell orders for securities from his accounts, while simultaneously or within a short period of time - entering opposite buy or sell orders from client accounts under his control. All the while, Yaacov determined the number of securities and their prices, so as to create coordinated transactions between his accounts and client accounts under his control. Yaacov's embezzlement of client funds through the coordinated transactions was carried out in two stages, which effectively resulted in "circular trading": Initially, Yaacov would carry out a first coordinated transaction, wherein he would buy shares through his accounts, usually at lower prices than those offered at that time for trading. Then, Yaacov would sell those shares to his clients at a higher price. Through these circular transactions, Yaacov generated guaranteed profits to his own accounts while guaranteeing monetary losses for his clients' accounts. Through these coordinated transactions, Yaacov fraudulently influenced fluctuations in the prices of those shares in which he traded. By embezzling his clients' funds, Yaacov committed numerous acts of theft by agent. By deceitfully obtaining his clients' permission to access their accounts, Yaacov was guilty of deceitful obtaining under aggravating circumstances. Furthermore, as an employee of Bank Leumi, Yaacov committed acts of deceit and breach of trust in a body corporate.

Yerushalaim, Yaacov's wife, worked as manager of the Jerusalem Bank's Investment Department. As such, she was an employee of a member of the Stock Exchange. As an employee of the International Bank of Israel, Yaacov, too, was an employee of a member of the Stock Exchange. During the period referenced in the indictment, Yaacov and Yerushalaim jointly carried out actions prohibited for licensed advisors and employees of Stock Exchange members, in violation of the Advice Law and the Securities Law. Violation of the licensing requirement - Yaacov carried out hundreds of transactions in securities in his clients' accounts, despite being licensed only as a provider of investment advice and despite the fact that he was not licensed to manage portfolios. In so doing, he violated Section 2 of the Advice Law, stating that no individual may manage investment portfolios without a license. Prohibited portfolio management in a bank - Yaacov carried out hundreds of transactions in securities in his clients' accounts in violation of Section 9(a) of the Advice Law, which prohibits banks from managing portfolios. Prohibited action by
a license holder - Yaacov carried out hundreds of transactions in securities on his own behalf, in violation of Section 4 of the Advice Law which prohibits licensed investment advisors from trading in securities for themselves. Trading in securities by an employee of the Stock Exchange - Yaacov carried out hundreds of transactions without issuing prior written orders and without maintaining a securities account in his name with the member of the Stock Exchange in which he was employed and in the branch in which he was employed. In so doing, Yaacov violated Section 52I of the Securities Law, which sets restrictions on employees of Stock Exchange members seeking to trade in securities for their own benefit or that of their family. Yerushalaim, too, committed hundreds of counts of trading in securities by a Stock Exchange member in violation of Section 52I of the Securities Law. Yerushalaim committed these violations by failing to carry out the transactions through a securities account opened in her name with the Stock Exchange member in which she was employed. Moreover, Yerushalaim committed these violations while being aware of the provisions of law restricting her husband’s trading in securities. 

Criminal Case 51462-12/10.

o. In December, an indictment was filed in the Tel Aviv Magistrate Court against Adi Ben Israel and Avshalom Weinrev on suspicion of using inside information obtained, directly or indirectly, from an insider - a violation under Section 52D of the Securities Law. During the period referenced in the indictment, Ben Israel served as deputy editor of the capital market section of Bizportal, an economics and finance website publishing, inter alia, economic news from Israel. Weinrev, a licensed investment dealer, worked in Clal Finance’s foreign investors department’s trading room. On August 27, 2008, Bank Leumi LeYisrael Ltd. (hereinafter - Bank Leumi or the Bank), a public company, was to publish its financial statements. Two days prior to this date, Bank Leumi’s spokesperson was preparing a press release concerning the Bank’s financial results for the second quarter of 2008. This press release was to be published on August 27, 2008, in conjunction with publication of the Bank’s statements. The press release included information from the quarterly report, explanations about key data included in the report such as net quarterly profit, return on equity, capital adequacy ratio, profit from ongoing operations, provisions for doubtful debts and a table including highlights of key figures from the financial statements. This information constitutes inside information as defined under the Securities Law. Due to a lapse of attention by the Bank's spokesperson's, the press release was emailed to the wrong address, and ultimately reached Ben Israel. According to the indictment, minutes after reading the press release, Ben Israel contacted Weinrev and disclosed the information included in the press release, knowing that Weinrev would make use of such information. After receiving the information, Weinrev disclosed the information from the press release to the investment house’s foreign clients, and to other persons active in the capital market. As expected, on August 27, 2008, Bank Leumi published its quarterly report, which included the information disclosed by the defendants. Criminal Case 10985-01/11.

2. Criminal Cases Pending in Court

At the end of the year, various cases were pending decision in court:

a. 31 criminal cases are pending in trial court, including 20 indictments filed in previous years.

b. 2 appeals are pending decision in the first appeals instance in the district court.
c. One appeal is pending in the third appeals instance in the Supreme Court.

3. Criminal Verdicts in Trial Court

During the year, eight sentences were handed down in trial court.\(^4\)

a. In February, the Tel Aviv Magistrate Court convicted Avi Dahan, Doron Hadar, Yair Zaig, and Avi Gargi based on their confession as part of a plea bargain, of those charges of which they were indicted (for information concerning the indictment, please see 2006 Annual Report, pp. 87-88, Section E). The defendants, excluding Hadar, confessed of committing violations of persuading individuals to buy securities by false statement or by concealing material facts under Section 54(a)(1) of the Securities Law, and violations of fraudulently influencing fluctuations in the prices of securities under Section 54(a)(2) of the Securities Law. Furthermore, defendants Dahan, Zaig, and Gargi confessed of committing violations of providing false information to another via computer, under Section 3(a)(1) of the Computers Law of 1995 (hereinafter, in this chapter - the Computers Law). Defendant Hadar confessed of being accessory to all the aforesaid violations - both under the Securities Law and under the Computers Law. According to their indictment, the defendants used various capital market-related internet bulletin boards to publish posts aimed at fraudulently raising securities prices. Furthermore, they acted to encourage investors to buy those securities through actions carried out on the Stock Exchange and through false information distributed on the internet bulletin boards.

The Court sentenced the defendants as follows: Avi Dahan was sentenced to six months in prison, to be served through community service, and a fine of NIS 100,000 substitutable for five months in prison. He was further sentenced to eight months in prison should he repeat the offense of which he was convicted within three years of the verdict. Doron Hadar was sentenced to two months in prison, to be served through community service, and a fine of NIS 40,000 substitutable for two months in prison. He was further sentenced to three months in prison should he repeat the offense of which he was convicted within three years of the verdict. Yair Zaig was sentenced to three months in prison, to be served through community service, and a fine of NIS 20,000 substitutable for one month in prison. He was further sentenced to five months in prison should he repeat the offense of which he was convicted within three years of the verdict. Avi Gargi was sentenced to five months in prison, to be served through community service, and a fine of NIS 60,000 substitutable for three months in prison. He was further sentenced to seven months in prison should he repeat the offense of which he was convicted within three years of the verdict. The indictment also included another defendant, Dvir Bar, who the Court decided not to convict despite stating that he committed the offenses of which he was indicted - an offense under Section 54(a)(1) and Section 54(a)(2) of the Securities Law. The Court decided not to convict the defendant as the damage which would have been caused the defendant following his conviction would have been greater than the damage to the public interest through his non-conviction. As part of the plea bargain, the Court sentenced Dvir Bar as follows: 200 hours’ community service, to be carried out over a

\(^4\) The number of verdicts does not necessarily correspond to the number of indictments filed. Indictments with more than one defendant are often given separate verdicts, and conversely, separate indictments are occasionally consolidated into one case.
six-month period. Bar committed to donating NIS 12,356 (an amount exactly equal to his profits from the actions of which he was indicted) to the Oncology Department of the Schneider Children Hospital. Criminal Case 6952/06, Criminal Case 7986/07.

b. In March, the Jerusalem District Court acquitted the defendants Modgal Ltd., Israel Mendelson Technical and Engineering Supply Ltd., and H.G.I.I. Building Materials Marketing Ltd., all public companies subject to the Securities Law, and Eilon Ben Herzl, Mendel Goldberg, Sami Levi, Moshe Rosenberg, and Mordechai Hodlerland, the organs in the relevant companies at the time referenced in the indictment (see 2000 Annual Report, p. 52, Section k). The defendants were charged with failure to report a restrictive trade agreement, violations under the Antitrust Law and violations of reporting requirements under the Securities Law, where they were charged with violations under Section 53(c)(8) of the Securities Law. The indictment accused the defendants of seven charges. The Court ruled that two of these charges had been proven. However, the Court accepted the defendants' argument for equitable defenses, whereby in this case duplicate charges were filed: both a violation under the Antitrust Law and a violation under the Securities Law, even though such action was not taken against other public companies which were indicted of restrictive trade arrangements. Therefore, the Court reached the conclusion that including the indictment on violations under the Securities Law would be arbitrary, and so all charges under the Securities law must be dropped. However, the Court convicted some of the defendants of two different charges under the Antitrust Law: (1) An arrangement for determining a minimum price for consumers, whereby the defendants set a price for a product and determined the profit to be gained on its sale; (2) A specific arrangement between two companies (Modgal and Tasa), whereby the two agreed to restrict the number, quality and class of assets in a business. Criminal Case 1274/00.

c. In April, the Tel Aviv Magistrate Court convicted defendant Yuval Gafni based on his confession as part of a plea bargain, of using inside information originating from an insider, a violation under Section 52D of the Securities Law, in accordance with the amended indictment filed April 25, 2010 (for information, see 2009 Annual Report, p. 118, Section 9). Criminal Case 6755-11/09.

In September, the Magistrate Court approved the plea bargain reached by the parties, and sentenced Gafni as follows: six months in prison to be served through community service, and a fine of NIS 300,000 substitutable for six months in prison. Gafni was further sentenced to eight months in prison should he repeat violations under Section 52C or 52D of the Securities Law within three years. Criminal Case 6755-11/09.

d. In July, the Tel Aviv Magistrate Court convicted defendant Shmuel Maya based on his confession as part of a plea bargain, of those charges on which he was indicted (see 2009 Annual Report, p. 115, Section D). The Court convicted Mr. Maya of managing investment portfolios without a license, a violation under Section 39(a)(1) of the Advice Law. This violation pertains to managing investment portfolios without obtaining a license as required by law. Management of investment portfolios, under Section 1 of the Advice Law, is defined as executing transactions at the portfolio manager's discretion for the accounts of others. Section 3(a)(3) of the Advice Law grants an exemption whereby individuals may manage investment portfolios without obtaining a license for no more than five clients in a single calendar year. The
defendant was charged of managing more than five client accounts at a time, during the period referred to in the indictment. The defendant evaded the statutory restriction set forth in Section 3(a)(3) of the Advice Law by establishing a "pyramid" mechanism for managing portfolios. The mechanism was comprised of the defendant's employees, who were likewise not licensed to manage portfolios, with each employee managing no more than five client portfolios at a given time. The defendant signed employment agreements with his employees, which provided for the distribution of profits, and provided his employees with the tools and equipment necessary for their work. Under this mechanism, the defendant carried out several transactions in a number of shares listed on the Stock Exchange in more than five portfolios at a given time, at his discretion and while orchestrating his employees' actions. Mechanism employees traded in those shares according to the defendant's sole discretion, and carried out his orders. The employees did not exercise true and independent judgment in carrying out transactions. Therefore, the prosecution proved that the mechanism constituted an artificial system designed to evade statutory requirements. The Court sentenced the defendant as follows: six months in prison should the defendant violate the Advice Law within three years of the verdict, and a fine of NIS 15,000 substitutable for 60 days in prison. Furthermore, the defendant was sentenced to sign a commitment to the amount of NIS 15,000, whereby he undertakes not to violate the Advice Law within three years of the verdict. Should he fail to sign this commitment, he will be subject to 45 days in prison. Criminal Case 15072-08/09.

e. In July, the Tel Aviv Magistrate Court did not convict Avinadav Grinshpon as part of a plea bargain, despite the defendant confessing to a violation under Section 52C of the Securities Law (for more information, see above). The Court sentenced the defendant without a conviction to 200 hours' community service. The Court stated that, as the defendant was not convicted, the Court cannot impose monetary sanctions. However, the parties may reach a mutual agreement, binding on the defendant, whereby he is to pay NIS 750,000. Therefore, the defendant reached an agreement with the prosecution whereby he donated NIS 750,000. Criminal Case 21503-06/10.

f. In August, the Tel Aviv Magistrate Court convicted defendants Daniel Molkandov and Green Light Mutual Funds Management Ltd. (hereinafter - Green Light), Emmanuel Modhi, Lev Hatamar Investments from the Daniel and Hanan Group Ltd. (hereinafter - Lev Hatamar), TIM Performance Ltd. (hereinafter - TIM), and Daf Heshbon - Examination of Bank Accounts and Financial Advice (hereinafter - Daf Heshbon) of those charges of which they were indicted (see 2006 Annual Report, p. 83, Section A). However, the Court acquitted Molkandov and Green Light of fraudulent inclusion of misleading information in a report - a violation under the Joint Investments Trust Law of 1994 (hereinafter - the Investments Trust Law).

The Court convicted Molkandov and Modhi of conspiring to commit a crime and obtaining by fraud under aggravating circumstances under the Penal Code. In addition, Molkandov was convicted of violations under the Investments in Trust Law and Regulations, of a violation under the Securities Regulations (Details, Structure and Form of an Mutual Fund Prospectus) of 1969 (hereinafter - the Mutual Fund Prospectus Details Regulations), and of falsifying corporate documents - a violation under the Penal Code. Modhi was furthermore convicted of assisting in the receipt of
benefits under the Investments in Trust Law. Green Light was convicted of violations under the Investments in Trust Law and Regulations; violations under the Mutual Fund Prospectus Details Regulations; and deceitful obtaining under aggravating circumstances - a violation under the Penal Code. Lev Tamar, TIM and Daf Heshbon were convicted of being accessory to deceitful obtaining under aggravating circumstances under the Penal Code, and to receiving benefits under the Investments in Trust Law.

According to the indictment, Molkandov and Modahi caused the mutual fund Raam-90-Arentroy (hereinafter - the Raam Fund), managed exclusively by Green Light, to pay Excellence (a dealer in the Raam Fund’s securities) commissions of NIS 3.5 or 4 per transaction. In practice, of this amount, NIS 2.5 remained in Excellence’s accounts while the rest was transferred to Modhi’s and Daf Heshbon’s accounts. Modhi and Molkandov agreed to split that amount between them through Lev Hatamar, TIM and Green Light. The second charge concerned a misleading report filed by the Raam Fund with the Stock Exchange and the Companies Registrar. The report stated that the price for carrying out transactions in options was NIS 4, and not NIS 2.5. The report did not disclose the transfer of funds from Modhi to Molkandov through the indicted companies. Under the third charge, the Raam Fund’s 2005 prospectus did not disclose the commission refund mechanism instituted between Excellence and Daf Heshbon and between Daf Heshbon and Green Light. Furthermore, the disclosure concerning the commissions on transactions in options was false and misleading. The fourth charge concerned falsifying ledgers with an intent to mislead. The commission transfer transactions were recorded in Molkandov’s books as advice services, while Modhi’s books recorded the transactions as payment for advice services (see 2006 Annual Report, p. 83, Section A).

In October, the Magistrate Court sentenced the defendants following their conviction. Molkandov was sentenced to 35 months in prison, including 20 months’ active prison sentence. The remaining 15 months are suspended for a period of three years on the condition that Molkandov not commit any offense involving deceit or fraud under the Penal Code, violations under Sections 81, 124 and 125 of the Joint Investments in Trust Law, or violations under Regulations 7 and 29 of the Mutual Fund Prospectus Details Regulations. Furthermore, the Court sentenced Molkandov to a fine of NIS 150,000 substitutable for 100 days in prison. Modhi was sentenced to 15 months in prison, including six months active prison sentence to be served through community service. The remaining nine months are suspended on the condition that Modhi not commit any offence of fraud under the Penal Code or violations under Sections 18, 124 and 125 of the Joint Investments Law. Furthermore, Modhi was fined NIS 50,000 substitutable for 50 days in prison. Green Light was fined NIS 100,000. Lev Hatamar was fined NIS 75,000. TIM was fined NIS 75,000. Daf Heshbon was fined NIS 100,000. Criminal Case 2312/06.

g. In September, the Tel Aviv Magistrate Court convicted Mr. Rafi Vickel based on his confession as part of a plea bargain, of those violations of which he was indicted (for more information, see above). Vickel was convicted of failure to comply with Section 36 of the Securities Law and a violation under Section 53(c)(8) of the Securities Law in addition to Regulation 36 of the Periodic and Immediate Reports Regulations. The
Court accepted the plea bargain and fined the defendant NIS 50,000, substitutable for six months in prison. **Criminal Case 38691-07/10.**

**h. In October,** the Tel Aviv Magistrate Court sentenced Mr. **Yona Ephraim** following his conviction based on his confession as part of a plea bargain, of deceitful obtaining under Section 415 to the Penal Code, fraudulently influencing fluctuations in securities prices under Section 54(a)(2) of the Securities Law, and falsely causing an individual to trade in securities under Section 54(a)(1) of the Securities Law. The Court sentenced the defendant to 18 months in prison, including 8 months active prison sentence. The remaining 10 months are suspended on the condition that the defendant not committing any of the offenses of which he was convicted for three years from his release from custody. Furthermore, the Court fined the defendant NIS 40,000, substitutable for five months in prison. The Court also required the defendant to sign a commitment of NIS 20,000, whereby he is not to commit any of those violations of which he was convicted for two years from the date of the verdict. Should he fail to sign this commitment, he will be subject to 30 days in prison. **Criminal Case 15159-10/09.**

**4. Verdicts in Criminal Appeals**

During the year, the Supreme Court handed down two verdicts in criminal appeals:

a. **In February,** the Supreme Court accepted the State's appeal of the acquittal on grounds of reasonable doubt of **Discount Investments Corporation Ltd.** (hereinafter - DIC), **Dov Tadmor,** **Shlomo Cohen** and **Yosef Yehonathan Buch.** The defendants were acquitted by the Tel Aviv District Court in Criminal Appeal 70949/02 (see 2004 Annual Report, p. 76, Section A(5)), in which they were charged with violations of Sections 36 and 53(a)(4) of the Securities Law, and failure to comply with the Periodic and Immediate Reports Regulations. The Supreme Court overturned the District Court's decision and convicted the defendants of 18 violations of which they were indicted, in accordance with the Magistrate Court's decision (see 2002 Annual Report, p. 59, Section A). The Supreme Court concluded that both the passive and active aspects of the factual basis for the violation took place. The passive aspect of the violation is reflected in the failure to file the associate companies' reports along with DIC's reports. These reports were to be filed with the Stock Exchange and the Companies Registrar. The active aspect of the violations is reflected in the filing of a report which included "misleading information" by way of omitting the associate companies' reports. These reports constitute material information concerning the reporting corporation, necessary for a reasonable investor. The Court reached the conclusion that the mental element of the violation, which requires that the prosecution prove that the defendant misled average investors, was proven by virtue of the 'expectation' precedent. Meaning, that the defendants were aware of a near certain possibility of misleading a reasonable investor through their failure to append the reports. The expectation precedent applies in the present case as: (a) the associate companies' reports were material to DIC's business, and the defendants were proven to have been aware of the material nature of this information. (b) the defendants' plan to omit the reports and the manner in which this plan was carried out indicate expectation of a near certain possibility that failure to disclose the material information would mislead reasonable investors. (c) it was determined that the
motive for the defendants' omitting the information does not constitute part of the expectation precedent, but rather an external element of the components of this test. Therefore, the fact that the company was seeking to appease its associate companies due to their concern for disclosing commercial secrets which would damage their competitiveness, and did not intend to harm reasonable investors, is irrelevant. Similarly, the Court ruled that the violations are not subject to limitation, despite being committed between 1990 and 1995 and despite a limitation period of five years. This, as the effective date is the date on which the omissions were rectified. Application for Criminal Appeal 11476/04.

In April, the Supreme Court sentenced the defendants as follows: (1) Tadmor was sentenced to 20 months in prison should he commit any further violation under the Securities Law which is punishable by three or more years in prison, within three years of the verdict. Furthermore, he was fined NIS 600,000, substitutable for 14 months in prison. (2) Cohen was sentenced to 10 months in prison should he commit any further violation under the Securities Law which is punishable by three or more years imprisonment, within three years of the verdict. Furthermore, he was fined NIS 250,000, substitutable for 6 months in prison. (3) Buch was sentenced to 14 months in prison should he commit any further violation under the Securities Law which is punishable by three or more years imprisonment, within three years of the verdict. Furthermore, he was fined NIS 350,000, substitutable for 9 months in prison. (4) DIC was fined NIS 800,000. Application for Criminal Appeal 11476/04.

b. In June, the Supreme Court rejected the appeal filed by defendants Ian Nigel Davis and Aviv Algor contesting their conviction, and accepted the appeal of their sentence as issued by the District Court. The Supreme Court upheld the charges of which the defendants were convicted by the District Court. These charges include, inter alia, reporting with an intention to mislead a reasonable investor under Section 53(a)(4) of the Securities Law in conjunction with Section 37 of the Law (see 2009 Annual Report, p. 123. Section 1). The Court accepted the appeal of the defendants' sentence on the grounds that there is no reason to differentiate between the penalties prescribed by the lower instance court for each of the defendants. The Court sentenced each of the defendants to two years in prison, of which one year suspended sentence, provided that they not commit any further violation of which they were convicted for a period of two years. This is in contrast to a sentence of 24 months active prison sentence ruled for Algor and 18 months active prison sentence ruled for Davis by the District Court. The Supreme Court did not change the fines imposed by the lower instance court on the defendants. These fines remain at NIS 2,000,000, substitutable for 18 months in prison, for each of the defendants. Criminal Appeal 5307/09.
IX  Investigations and Intelligence Department

The Investigations and Intelligence Department implements the policies of the ISA’s Chairman regarding deterrence as well as streamlining the processing of investigation files. During the reporting year, the Department continued its efforts to decrease the time elapsed between receiving an order to commence an overt investigation and the actual start of the overt investigation, so as to shorten the length of the investigation and render the overall investigation processes more efficient.

During the past year, as part of the ISA’s globalization strategy, the Department increased its responsiveness to judicial inquiries from foreign regulators under the conventions which it has signed.

In addition, cooperation between the ISA’s Investigations and Intelligence Department and other enforcement agencies continued to increase, as well as cooperation with Israeli enforcement agencies, as part of their efforts to defeat economic criminal activity.

The Department also increased its enforcement of offenses such as the inclusion of misleading information in prospectuses and financial statements, placed emphasis on reports involving international real estate activities, with the help of intelligence, and was actively involved in investigating these offenses. As a result, there was increased activity in the investigation of cases in this area.

The Investigations and Intelligence Department identified and investigated a number of events regarding securities trading in institutional entities, in which senior officers and employers allegedly engaged in fraudulent activity.

The Department has begun preparations for the assimilation and application of the Improvement of Enforcement Procedures Law, which is scheduled to undergo its second and third reading in the Knesset in the near future.

<table>
<thead>
<tr>
<th>Type of offense</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities fraud</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Use of inside information</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Inclusion of misleading information (in prospectuses, financial statements or immediate reports)</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>Delinquent filing and non-filing</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Unlicensed portfolio management or investment advice</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Judicial inquiries</td>
<td>5</td>
<td>8</td>
<td>7</td>
<td>9</td>
<td>13</td>
<td>42</td>
</tr>
<tr>
<td>Offenses by an employee of a stock exchange member and prohibited</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 24: Investigation cases forwarded to the Investigations and Intelligence Department in the past five years, by types of offenses

42 These data include the “Heftziba Affair”, in which additional offenses of the Penal Law and Prohibition on Money Laundering Law were investigated by special authorization.
acts by a licensed investment portfolio manager

<table>
<thead>
<tr>
<th>Disciplinary offenses</th>
<th>Offenses under the Joint Investment Trust Law</th>
<th>Offenses under the Penal Law: bribery, theft, obtaining by fraud</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
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<td>2</td>
<td>7</td>
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<td>2</td>
<td>5</td>
</tr>
<tr>
<td>-</td>
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<td>2</td>
<td>5</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>20</td>
<td>18</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>25</td>
<td>106</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 25: Cases where it was decided whether there was sufficient or insufficient prima facie evidence that an offense had been committed in the past five years

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases with insufficient prima facie evidence of offenses</th>
<th>Cases with sufficient prima facie evidence of offenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>2007</td>
<td>2</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>2008</td>
<td>4</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>2010</td>
<td>3</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>55</td>
<td>65</td>
</tr>
</tbody>
</table>

Table 26: Investigation cases forwarded to the District Attorney’s Office in the past five years, by main type of offense

<table>
<thead>
<tr>
<th>Type of offense</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities fraud</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Use of inside information</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Inclusion of misleading information (in prospectuses, financial statements or immediate reports)</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Offenses by an employee of a stock exchange member</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
</tbody>
</table>

These data include three files which have been split off existing cases.

These data do not include three cases of judicial inquiries requested by a foreign country, the findings of which were forwarded to the foreign authority.

These data do not include five cases of judicial inquiries requested by a foreign country, the findings of which were delivered to the foreign agency.

These data do not include two cases of judicial inquiries requested by a foreign country, the findings of which were delivered to the foreign agency.

These data do not include seven cases of judicial inquiries requested by a foreign country, the findings of which were delivered to the foreign agency.

These data do not include 11 cases of judicial inquiries requested by a foreign country, the findings of which were delivered to the foreign agency.
As of the end of the reporting year, the Investigations Department has 11 pending cases, where investigation is still ongoing. In addition, seven judicial inquiries are still pending.
X Department of Research, Development and Economic and Strategic Counseling

1. Strategic counseling
The Department of Research, Development and Economic and Strategic Counseling offers strategic counseling and direction to the ISA’s Chairman and various departments. The Department monitors economic developments and trends in capital markets in Israel and abroad on an ongoing basis. It gathers and analyzes economic data and information, so as to ensure that the ISA’s strategic policies are in line with the developments, changes and risks which arise in international capital markets.

2. Economic counseling
During the reporting year, the Department offered the ISA’s Chairman and its various departments economic counseling on several current issues.

The Department extended assistance the Corporate Finance Department, the Investment Advisors’ Unit, the Investigations and Intelligence Department as well as the Attorney General in matters related to trading on the Stock Exchange and the manner in which capital markets operate. It also assisted the International Affairs Department in updating information for international organizations. In addition, the Department cooperates with the Department of Supervision over the Secondary Market on issues related to the control and supervision of trading.

During the reporting year, the Department led several work teams and participated in others: It took part in: the ISA’s enforcement forum; the team charged with examining offerings of venture capital funds; the ISA’s team handling financial intermediaries; the ISA’s team for the development of capital requirements for own account trading floors; the team for the management of systemic risks; as well as in the team handling knowledge management.

3. Remuneration structure of senior officers in publically traded companies
Information regarding the salaries and remuneration of senior officers in publically traded companies and the process in which these are determined attest to the use of company resources. These data provide investors with information regarding the company’s decision making processes, the considerations taken into account in determining remuneration and the relation between these considerations and the company’s position, as well as the officer’s contribution to it. This issue has been the subject of public debate for some time.

The remuneration of senior officers raises numerous questions regarding the manner in which company organs approve such remuneration and the transparency of such processes; regarding the relation between the remuneration structure and the company’s profitability and how it effects the state of the company’s business; as well as the relation between the scope of remuneration and the officer’s contribution to the company. In order to examine these questions and others, the ISA’s Department of Research, Development and Economic and Strategic Counseling collected information regarding 67 companies from the Tel Aviv 100 Index (excluding dual listed companies and partnerships) between 2003 and 2009. Information regarding each officer included: roles of senior officers in the company and its subsidiaries, bonuses, fringe benefits, management fees, appointment percentage, holdings in the company, etc. For each of the reporting companies, the Department collected information regarding: sector, business group, return on stock, public holdings, market
capitalization, etc. The results of these analyses served as the basis for the ISA’s position on the issue and its recommendations to the Ministerial Committee for Senior Officers’ Remuneration headed by Finance Minister Yaacov Ne’eman.

4. **Representation of women on boards of directors**

The Committee for Adequate Representation of Women on Publically Traded Companies’ Boards of Directors discussed a bill for the adequate representation of women in publically traded companies (Amendment 14 to the Companies Law). The Committee and Ministry of Justice requested that the Department provide it with data regarding the representation of women on the boards of directors of publically traded companies. For this purpose, the Department collected data from companies’ financial statements. The data were processed, and a summary of the findings was submitted to the members of the Committee in October 2010.

5. **Analysis of the oil and natural gas exploration industry in 2008-2010**

During the past two years, the exploration of oil and natural gas industry grew dramatically following reports on the discovery of natural gas. Following the growth in this sector, and in light of the Sheshinski Committee’s recommendations, the Department conducted research into the sector’s characteristics. These examinations included analyses of primary and secondary markets and of the extent of involvement by institutional investors in this sector. The analysis concluded that the ISA should initiate a unique reporting format for the sector.

6. **Cooperation with the Milken Institute and the Koret Foundation**

The Department started an initiative in cooperation with the Koret-Milken Institute Fellows Program. The Foundation offers research programs, in which it awards grants to outstanding students graduating from institutes of higher education. As part of the program, research fellows serve as interns in government ministries and parliamentary bureaus, where they receive guidance from internationally renowned experts.

As part of the joint initiative, four research fellows have been teamed up with the Department, conducting research work on subjects related to the ISA’s areas of activity and goals. The Department provides the research fellows with counseling, guidance and assistance, and the Foundation monitors their work.

**Research conducted during the reporting year:**

a. **Characteristics of the corporate bond market** – a research project which continues the one conducted in 2009 regarding the Israel bond market and the credit crisis. This project examines the manner in which the Israeli financial markets developed as compared with the rest of the world in the years that preceded the crisis, with the aim of understanding why the crisis in Israel was characterized primarily by sharp declines in corporate bond prices, whereas elsewhere it was primarily reflected in the banking and real estate sectors. The research project examines the structure of the Israeli bond market and the pricing of risks in the years that preceded the crisis. In addition, the research examines the ability of models which rely on open accounting information available prior to the crisis to predict that a company will enter into a debt arrangement or financial difficulties. This research project was conducted in cooperation with the Bank of Israel.

b. **Structure of the proxy market and its effect on the manner in which institutional entities are involved in votes** – the requirement for institutional entities to vote in shareholder meetings brought about the establishment of consulting firms which
conduct an analysis of the decisions under discussion and issue an opinion thereof for institutional entities, in return for a fee. The examination of this market shows a structure in which one firm dominates most proxy consulting services. This situation raises quite a few questions regarding the manner in which institutional entities are involved in votes, such as: To what extent are such services used; the variance in voting between the various institutional entities; the level of “compliance” with the recommendations of consulting firms; characterizing the decision by institutional investors’ to request recommendations from an external body, etc. The findings of this research show that a voting recommendation by a proxy consultant constitutes a key factor in the process, which has major influence over voting decisions by institutional investors using consulting services. The findings of this research did not point at the existence of distortions in the recommendations of proxy consultants, and in most cases its seems that the rate of negative recommendations correlates to the potential for conflict of interest inherent in the decision proposal category. However, the high number of negative recommendations does not change the overall picture – most decision proposals with potential for conflict of interest are passed.

C. Is there an interrelationship between transparency in trading and trading efficiency?  
The economic and finance literature is abundant with articles supporting – both theoretically and empirically – the interrelationship between trading systems, trading efficiency, liquidity and the value of securities. Efficiency of trading is also measured against quote driven trading systems, as well as by order driven trading systems. Those in favor of order driven trading systems suggest that the transparency inherent in this system renders it more efficient. On the other hand, supporters of quote driven trading claim that transparency harms the ability of market makers to maintain an ongoing presence in minimum spread trading. According to this, transparency increases the risk inherent in market making, and therefore increases the difference between the purchase price and sale price quoted by market makers. This difference embodies the risk premium of market makers in trading. The purpose of this research is to confront these two approaches, while examining the bond markets in the US and Europe, which are mostly OTC markets with quote driven trading systems. On the other hand, the Tel Aviv Stock Market, where an order driven system is in place, was assessed. The findings of this research show that the Israeli bond market is characterized by higher buy-sell spreads in larger transactions (consistent with findings from the US share market), but with effectively higher buy-sell spreads in smaller transactions (consistent with foreign bond markets).

7. Supervision over the secondary market and Stock Exchange  
During the reporting year, the Department cooperated with the Supervision over Secondary Market Department regarding various issues related to the supervision of the secondary market and the Stock Exchange. As part of this cooperation, the Department took part in meetings of the Stock Exchange’s board of directors, prepared material for meeting of the ISA’s Secondary Market Committee and handled additional ongoing issues common to the ISA and the Exchange.

8. Research cooperation between the ISA and academic institutions  
The Department operated a program for joint research, whose aim is to expand the ISA’s research groundwork by enlisting academic researchers for joint research work. Participants in the program include master students and PhD candidates studying economics, business
administration, and law. Program candidates are to submit research proposals on subjects related to the ISA’s areas of activity and goals. These include: The development of the capital market; correcting economic and regulatory failures; increasing investors’ trust and increasing public awareness of capital market issues. Researchers whose proposals are accepted by the ISA shall conduct their research in full cooperation with the Department of Research, Development and Economic and Strategic Counseling and receive financial support.

Research conducted during the reporting year:

_Same-day Analysis of the Relationship between Indexes and their Underlying Shares_ – the relation between stock indexes and their underlying shares. Seemingly, indexes represent the weighted average of their underlying shares. Nevertheless, it was found that the relation between an index and its underlying shares, within time spans of one or more trading days, proves that the index has a stronger influence over the shares than the shares over the index. The purpose of the research project is to examine the relationship between the Tel Aviv 25 Index and its underlying shares, within short time spans, using same-day data of transaction prices as well as buy and sell prices which appear in the trading order book. This research shows, by analyzing correlations and partial correlations as well as same day analysis of the relationship, that within short time spans, shares have a stronger influence on the index than vice versa. In addition, The study shows that in shorter time spans there is a reverse relationship between transaction prices and trading book prices.
XI  Class Action Lawsuits

1. Financing of class action lawsuits

According to Section 209 of the Companies Law, the ISA may pay the expenses of a class action lawsuit if it is convinced that it is in the interest of the public and there is a reasonable chance that the court will approve the lawsuit's status as a class action.

2. Class action lawsuits pending decision

As of the end of the reporting year, the ISA received four applications for financing class action lawsuits, which are still pending review.

3. Class Action Lawsuits Receiving Financing from the ISA and Completed during the Year

During the reporting year, no class action lawsuits receiving financing from the ISA were completed.

4. Pending Class Action Lawsuits Receiving Financing from the ISA

a. Class action against Reichert Industries Ltd. et al - On June 7, 2007, the Supreme Court ruled (hereinafter - the Supreme Court Ruling) on the appeal filed by the class action plaintiff and the appeal filed by Mr. Dan Reichert (hereinafter - Reichert) against the District Court's ruling. The Supreme Court Ruling outlined principles defining the term "controlling shareholder" for accountability purposes. The Supreme Court reaffirmed the decision of the lower instance court that Mr. Reichert was indeed a "controlling shareholder" in the Company and therefore accountable for damages sustained by the plaintiffs.

The Supreme Court presented various methods for calculating damages due in a class action lawsuit, and determined that, in this case, the appropriate method is the "out of pocket" method. This method is based on the damages principle prescribed under tort law and on restitution. Early in the reporting year, the Hon. Judge Dr. Michal Agmon-Gonen issued the District Court's decision in the case (hereinafter - the District Court Ruling). The District Court Ruling determined that the fraud's effect on the price of the relevant securities is reflected through the change in their prices soon after the fraud was uncovered. The Judge examined the share price in the days prior to the arrests and the publication of the fraud, and compared it to the share price in the days following publication. The difference between the share prices reflects the effects of the fraud on the price of the relevant securities, assuming a non-perfect market where the price of the fraud prior to its publication is not embodied in the share price. Therefore, the Judge decided that the damage to each plaintiff equals the multiple of the number of securities held by that plaintiff by the difference between the share price prior to the fraud's publication and its price soon after publication. The Judge charged the respondents, Reichert and Mr. Menashe Cohen, with damages according to the Supreme Court Ruling, according to their relative involvement in the fraud.

Total damages amounted to NIS 9,043,384, plus linkage and interest as required by law from the date of the fraud's discovery and until such time as payment has been made in full. The award to the class action plaintiff amounted to NIS 400,000, and the legal fees awarded to the class action plaintiff's representative amounted to NIS 1,300,000. The class action plaintiff appealed the manner in which the out of pocket...
method was applied in this ruling, as determined in the Supreme Court Ruling and the District Court Ruling. The class action plaintiff further appealed the legal fees awarded to the class action plaintiff's representative. The appeal has yet to be heard (see also the 2009 Annual Report, p. 135, Section 2b). Civil Case 1134/95, Application for Civil Appeal 8268/96, 8377/96 and 8322/96, Civil Appeal 2046/10.

b. Class action against Elscint Ltd. et al - On December 14, 2006, the Supreme Court accepted an appeal to overturn the District Court's decision to deny an application dated August 16, 2000, to classify the suit as a class action.49 The application to approve the suit as a class action was re-submitted to the Haifa District Court, due to the time that had elapsed and in light of the Class Action Law, 2006 (hereinafter - the Class Action Law). The application for approval as a class action was first heard in the second half of 2007, and in January of 2009, the Court decided to deny the request to approve the suit as a class action. The main reasons for denying the application were as follows: (a) The Court determined that the claim contained a number of discriminatory events, therefore - the members of the potential group as defined in the application do not constitute a homogenous group as required under Section 4 of the Class Action Law, according to which one may only file a class action on behalf of a group if that person has grounds for a claim that raises material factual and legal questions which concern all members of the group. Since the claim concerns a number of events and members who purchased shares at different dates, only some of the events are relevant to group members and the material factual and legal questions are not common to all group members. The Court added that it is authorized, according to Section 10(c) of the Class Action Law, to define a sub-group if it finds that some factual or legal questions may not be common to all group members but only to some. However, the Court decided not to do so, since there was no mention of the possibility in the statements of claim filed by the plaintiffs. The Court stated that a single event raised a question common to all members of the group - an acquisition of hospitality operations and rights in a commercial and entertainment center project in Herzliya marina (later known as the Arena Mall) by Elscint Ltd. of the Europe Israel Group in September 1999 (hereinafter - the Elscint Europe Israel Transaction).

(b) As regards the Elscint Europe Israel Transaction, the Court determined that the plaintiffs have a basis for personal claims insofar as Elscint sustained damages from the transaction, since the grounds for the claim arise from the fact that the damages sustained by public shareholders are higher than the damages sustained by the controlling shareholder, as the assets purchased by Elscint in the transaction were those of the controlling shareholder. This is based on the precedent established in the Magen VeKeshet Ltd. case,50 whereby "The rule is that when a shareholder sustains losses independent of the damage sustained by the company, he has grounds for a personal claim, independent of the Company. However, typically, when the damage to shareholders is caused by a decrease in the value of the company and its shares and all shareholders are equally affected, there are no grounds for a personal claim. This constitutes secondary damage, which reflects damages

49 Civil Appeals Application 7028/00 IBI Mutual Funds Management (1978) Ltd. v. Elscint Ltd. et al, Supreme Court Takdin (4)2006 4102.
50 Civil Appeal 1967/95 Magen VeKeshet Ltd. v. Tempo Beer Industries et al, Supreme Court Ruling 51(2) 312, 326.
sustained by the company. There are a few exceptions to this rule, including damage sustained due to a breach of a contractual right of a shareholder as such, or when the damage sustained by a shareholder or a group of shareholders is different from the damage sustained by another group of shareholders, or due to minority discrimination...". Despite the Court's determination that the Elscint Europe Israel Transaction may give rise to unique damages which raise grounds for a personal claim, as regards another component in the claim, the plaintiffs did not prove, prima facie or otherwise, that they indeed sustained any damages as required under Section 4(b)(1) of the Class Action Law.

In 2009, an appeal was filed with the Supreme Court. The appeal contests the lower instance court's decision as aforesaid. On October 2, 2010, the Supreme Court heard the appeal. The appeal is still pending decision (see also 2009 Annual Report, p. 152, Section 3c; 2007 Annual Report, p.109, Section 3b; 2006 Annual Report, p. 108, Section 3b; 2005 Annual Report, p. 102, Section 3b; and 1999 Annual Report, p. 42, Section 1d).

c. **Class action against the Israel Trade Bank Ltd. et al** - The Tel Aviv District Court rejected the application to approve the suit as a class action. The class plaintiff appealed the District Court's decision to the Supreme Court in 2002. In 2007, the Supreme Court suggested to deny the claim against the majority of the respondents. As regards the Bank's accountants, the District Court's ruling was overturned and the class action suit against them is to continue.

In March 2009, the Hon. Judge Zipora Baron rejected the application to approve the suit as a class action against the accountants, following the rejection of a number of applications to include documents which reinforce the factual foundation for the claim. These documents comprise a claim filed by the Bank's liquidator against the accounting firm, and which ended in a settlement agreement; the "Special Manager's Report to the Court Case"; and the verdict given in the criminal proceedings instituted against various parties in the Israel Trade Bank affair.

In April 2009, the District Court's decisions were appealed to the Supreme Court, including the District Court's refusal to include the above exhibits, and a complaint against the high court costs with which the plaintiff was charged. On December 13, 2010, the Supreme Court heard the appeal. The appeal is pending decision (see also 2009 Annual Report, p. 152, Section 3(f); 2002 Annual Report, p. 73, Section 1f). Civil Case 1521/02, Civil Appeal 10927/02.

d. **Class action against Bolos Travel and Hotels Ltd. et al** (hereinafter - the Company) - The case, filed in 2002, pertains to the inclusion of misleading information in the Company's prospectus and financial statements, unfair disclosure in the Company's annual financial statements, as well as the violation of duties and obligations on the part of the Company's bonds trustee towards bondholders.

In September 2009, the Court rejected the respondents' request to postpone hearings in the case until completion of criminal proceedings brought against them, due to concern for self-incrimination and due to the declining health of a key witness.

In her decision from October 2009, Judge Michal Nadav rejected the plaintiffs' application to include the criminal ruling given against the Company as prima facie evidence under Section 42 of the Evidence Ordinance. This ruling was given as part of a settlement agreement in which the liquidator admitted the offences with which the
The Judge decided that there is no sense including the incriminating ruling given against parties in the case, as the Company is not an active party in the civil proceedings. Concerning the question of whether it is possible to include the indictment as evidence against the directors, who are "liable through the liability of a convicted party", the Judge decided that the directors' liability shall not be considered a statutory liability by virtue of their position, similar to that of principals, insurers, or employers. The Judge decided that directors bear a personal liability for wrongs committed by them and, in any case, directors do not bear an "automatic" civil liability through their company's liability. As regards the weight given the ruling had it been admitted as evidence, the Judge stated that there was doubt regarding the weight of a convicting ruling obtained through a settlement agreement. This, as the liquidator does not have any "legal affinity" to the directors, and they each have different interests.

The plaintiffs' representatives applied for permission to appeal these decisions to the Supreme Court. On February 14, 2010, the Supreme Court denied the application for permission to appeal.

During the reporting year, the evidence stage of the application for approval as class action reached its conclusion, and the parties submitted their summations. The application for approval as a class action is not pending decision (see also 2009 Annual Report, p. 137, Section 3d; 2006 Annual Report, Section 3c; 2002 Annual Report, p. 72, Section 1c). **Civil Case 1934/02.**

e. **Class action against Kital International Holdings and Development Ltd. and Levi Kushner** - Request for valuation relief under Section 338 of the Companies Law. After the District Court approved the suit as a class action and determined that the basis for calculating the fair value of the Company's shares is its real economic value at the time the purchase offer was submitted, and not its market capitalization, the respondents filed an appeal with the Supreme Court.

The plaintiff agreed that the application for appeal be heard as an appeal. The parties submitted their summations, and the litigants were requested to submit their positions regarding the implications the ruling given in Civil Case 10406/06 Atzmon v. Bank Hapoalim, where the Supreme Court made precedential decisions concerning the fair value valuation of shares in valuation relief actions. A hearing in the case was also held in the Supreme Court. In light of the importance of the matter, the Supreme Court judges requested and received approval to expand the panel to seven judges. Hearings in the Supreme Court, before the expanded panel, are planned for April 2011 (see also 2009 Annual Report, pp. 137-138, Section 3e; and 2002 Annual Report, p. 72, Section 1c). **Civil Appeal Application 779/06, Civil Case 2338/02, Miscellaneous Civil Application 20012.**

f. **Class action against Dor Chemicals et al.** - The suit pertains mainly to misleading investors as to the Company's true financial position in the period 2002-2004, when the Company allegedly presented itself as a successful company with huge earnings, while withholding material information and providing misleading positive indications. The respondents have yet to submit their response to the Court (see also 2009 Annual Report, p. 138, Section 3g; and 2006 Annual Report, p. 105, Section 1). **Civil Case 1185/05.**
g. **Class action against TRD Ltd. et al** - The suit concerns misleading investors as to the Company's financial investment activities and its exposure to high-risk, speculative financial instruments, whereas when the Company filed its initial public offering with the Stock Exchange, its prospectus stated that it deals in dental instrumentation. The parties submitted all their pleadings in the case to the Court, along with expert opinions. The Court appointed an expert on its behalf. On December 15, 2010, a hearing was held in this case, in which the Court’s expert was questioned. The proof stage is expected to end in September 2011 (see also 2009 Annual Report, p. 138, Section 3h; and 2007 Annual Report, p. 107, Section 1). **Civil Case 1420/07.**

h. **Class action against Landmark Group Ltd. et al** - Landmark is an Israeli Company whose securities were traded on the Tel Aviv Stock Exchange. Additional respondents in the case are Landmark's controlling shareholders, directors, and the underwriters in Landmark's IPO. The class plaintiffs are Harel Funds Management Ltd. (hereinafter - Harel), and Mr. Asher Sapir.

The suit pertains to a prospectus published by the Company on May 21, 2007. This prospectus was allegedly fraught with misleading information, including as regards two of Landmark's properties in the United States, and as regards a construction deal involving those two properties (which ultimately failed to materialize). The plaintiffs raise additional arguments concerning misleading information included in the prospectus. According to the class plaintiffs, NIS 170 million were raised from the public based on this misleading information. The class plaintiffs argue that had the true facts been presented, the Company's securities would never have been offered to the public under a prospectus and listed on the Stock Exchange. or alternatively - they would have been offered to the public, purchased by group members, and traded on the Stock Exchange at significantly lower prices. The respondents filed their responses to the application, and the class plaintiffs subsequently filed their reply.

As part of proceedings in this suit, the respondents requested that the application for approval as a class action be rejected out of hand. In the request for rejection out of hand, the respondents argued that as the institutional investor’s (Harel) personal claim is of a significant amount (NIS 1.8 million), a class action is not the suitable avenue for resolving the claim, and that damages of these amounts call for a personal claim being filed and not a class action, which is an exceptional tool to be used only when personal claims are not practical or effective.

On October 3, 2010, the Court rejected this argument. The Court stated that "Both as a matter of legal principal and as a matter of legal practice, there are cases in which a suit may be approved as a class action at the request of those who have not been significantly damaged. This applies as a general principle, but particularly applies in the case at hand in an institutional investor’s application for approval of a securities claim as a class action. The Court decided that both policy considerations, the provisions of law, and case precedent support its position. The proof stage is due to start in February 2011. **Class Action 14144-05-09.**

i. **Class action against Standard & Poor's Maalot Ltd. et al** - This claim was filed against Standard and Poor’s Maalot Ltd. (hereinafter - Maalot), World Currencies Ltd. and several of its officers and controlling shareholders, and against the Trust Company of Bank Leumi Le-Israel Ltd. (hereinafter - the Trustee). The suit concerns asset-backed bonds offered to the public by World Currencies under a prospectus dated February
2006 (hereinafter - the Prospectus). These bonds were backed by notes issued by to banks to World Currencies. The first bank was Lehman Brothers Bankhaus AG - a German bank which is a subsidiary of Lehman Holdings (hereinafter - Lehman Germany). A significant percent of the bonds were backed by this bank. Lehman Holdings fully guaranteed Lehman Germany's obligations for the underlying asset. The other underlying assets were backed by BNP Paribas. The prospectus included Maalot's local AAA rating for the bonds. This rating remained unchanged right up to Lehman Holding's collapse in September 2008. On that day, the bonds value dropped by 44%. The following day, the bonds were demoted from AAA to D (Default). Upon Lehman Holdings' collapse, the Commissioner of Banks in Germany issued an order prohibiting Lehman Germany from making or receiving payments. The suit includes various arguments brought against the respondents. The statement of claim states, inter alia, that the issuing company - World Currencies - greatly delayed its disclosure to the public of the underlying banks; that Maalot committed to regularly monitoring its rating and to update the rating as necessary, and that Maalot's rating of the bonds in the prospectus (AAA) constitutes misleading information; and that the Trustee failed to take any action to guarantee the Company's obligations towards its bondholders. The respondents have filed their responses to the application for approval as a class action, and the class plaintiff has subsequently filed its reply. The next hearing in this case is scheduled for May 17, 2010. **Class Action 1383-09.**
XII International Affairs Department

1. General

This year, financial regulators worldwide continued to implement the lessons of the global economic crisis. For this purpose, countries enhanced their cooperation and coordination within leading international forums, such as the FSB, IOSCO, OECD, etc. The purpose of these efforts is to develop adequate and coordinated means for handling similar crises, as well as different ones, in the future.

The International Affairs Department took part in these discussions, in an effort, *inter alia*, to learn and implement lessons relevant to Israel, *mutatis mutandis*, insomuch as these relate to the responsibilities and authority of the Israel Securities Authority.

In addition, the International Affairs Department led efforts to promote the position and image of the ISA and the Israeli capital market in the international arena, as a state of the art, progressive capital market with up to date, effective regulation.

2. Bi-lateral recognition

The main highlight in the Department’s achievements in 2010 was the decision by the European securities authority (ESMA) to recognize the Israeli regulation regarding the content and format of prospectuses under the Securities Law. The significance of this decision is that an Israeli prospectus, with the addition of several details, may be filed in all 27 EU countries, for the purpose of listing publicly traded Israeli companies on European stock exchanges. The decision, which was made in early 2011, is the result of negotiations with the CESR – the parent organization of European securities regulators (now called ESMA, following changes in the regulatory structure in Europe) - which lasted more than two years and matured into *de principi*e recognition during the reporting year. The recognition of Israeli regulation is a precedent in the European Union. It is the first time that the ESMA has exploited the newly acquired power granted to European regulators under the European Prospectus Directive (2003/71/EC) and Transparency Directive (2004/109/EC) to recognize as equivalent regulation regimes outside Europe.

The decision to recognize Israel and, in addition – the fact that Israel is the first country for which such a decision has been implemented – represents a positive indication by the international financial regulatory community regarding the nature and quality of the Israeli regulation. In addition, the ISA hopes that this move will have practical implications for Israeli companies – providing them with access to new markets and foreign investors. This recognition may pave the way for the ISA to sign additional bi-lateral agreements with other EU regulators, similar to the bi-lateral agreement between the AMF and the ISA, signed in 2008.

3. Participation in international forums

3.a Activity under the IOSCO

The International Securities Authorities Organization, IOSCO, is the supreme international forum for international cooperation amongst securities regulators. It has approximately 200 members from 100 countries worldwide. The Organization establishes uniform policies and principles, which are adopted by its members.

IOSCO’s principles have gained international recognition as the leading criteria for financial analyses and assessments by international financial institutions, such as IMF reports, as well as the basis for financial legislation. For example, the EU financial
Directives issued in recent years were based on the IOSCO’s principles and were codified in 27 EU member countries. The IOSCO’s influence on the international financial scene is reflected, inter alia, in that the International Financial Reporting Standards (IFRS), which have undoubtedly become the accepted business language, has evolved from an unknown set of standards to the world’s leading and most pervasive accounting standards (more than 100 countries worldwide have adopted the IFRS). The organization sets the agenda amongst its members – primarily world financial regulators and stock exchanges.

During the year, the Department participated in the following events and discussions held by IOSCO:

(a) The IOSCO Annual Conference – this conference is considered one of the most significant and prestigious events in the global economic regulatory community. This year, discussions revolved around the IOSCO’s strategic directions, while addressing lessons derived from the financial crisis. Changes in principles and in the Organization’s set of rules were discussed and implemented, according to the newly formed strategic direction. After the conference, the IOSCO published an updated list of binding principles, which include, inter alia, the following principles defining the roles of securities authorities:

- An additional principle which defines a new role for securities regulators – handling risks understood as systemic, i.e., risks bearing potentially adverse effects on the financial system and economy as a whole;
- Regulators are required to ensure adequate supervision on the issue and distribution of compound securities;
- Independent auditors shall be subjected to adequate supervision;
- Adequate supervision over credit rating agencies;
- Regulation of hedge funds;
- Disclosure to investors must include the subject of the risk as a key issue in making investing decisions;
- Implementing adequate standards in the regulation of joint investment funds;
- Financial intermediaries are required to establish an internal compliance system which reports directly to management and which addresses risk management;
- Regulators are required to supervise clearing systems so as to ensure the proper management of the system and the reduction of systemic risk.

The IOSCO’s principles are considered to be of great significance in outlining the main issues and roles that international regulators should exercise and fulfill in order to ensure the proper functioning of the international financial system. Some of these principles are already implemented in new regulation and supervision projects within the ISA.

(b) Leading the IOSCO MMOU Monitoring Group - The head of the Department, who serves as Deputy Chairman of the Group, participated in its annual meeting and recommended that a few changes be implemented in the work of the group.
and in the supervision aspects of the IOSCO Agreement. Her suggestions were accepted by the group as binding decisions.

(c) Leading the EMC WG4 working group project regarding enforcement and information under the IOSCO Agreement - The Department continued to promote the project initiated in the previous reporting year: Setting up an internet portal in order to enhance information exchange between IOSCO members. The portal was formally launched in June 2010.

(d) Participation (as observers) in the IOSCO European Regional Committee enabled the Department to strengthen the ISA’s ties with European securities authorities and their parent organization (the CESR), and to position the ISA as progressive and in line with European financial legislation. This year, the International Affairs Department participated in all meetings held by the committee and presented to it, on a number of occasions, various aspects of the Israeli regulation.

(e) IOSCO Technical Committee Working Group on Systemic Risk - The Department participated in discussions and in the drafting of work papers for this important group, which was established in June this year following a decision by IOSCO to update its goals so as that these include dealing with systemic risks (see Section A above, under the IOSCO Annual Conference).

(f) IOSCO MMOU Screening Group - Since becoming a member of this prestigious forum in 2007, the ISA takes an active part in the screening and approval of IOSCO members wishing to join the IOSCO Agreement. The Group holds in-depth discussions regarding the legal groundwork in countries wishing to join the agreement vs. the IOSCO’s rigid criteria for cooperation. During the reporting year, the ISA took part in three meetings held by the group and led a number of projects as well as applications to join.

(g) Emerging Markets Committee (EMC) - The ISA participated in the discussions held by the Committee and held meetings with its senior team as well as with senior IOSCO officials to enhance its involvement in the IOSCO’s work. The ISA’s activity mainly focused on:

- Establishing a mission team regarding the tradable bond market: The ISA took part in this mission team and was asked to write a chapter regarding the development of the bond market in Israel as part of the final report. The development of the Israeli bond market was presented in the annual Emerging Markets Committee Conference, as part of the mission team meeting. The ISA held another presentation in the Conference, regarding the establishment of an economic court in Israel. Following the presentation and upon the ISA’s initiative, it was decided to set up a mission team on the issue.

- In addition, the Chairman of the ISA agreed to participate as a panel speaker at the Annual Conference and present the issue of IFRS adoption in Israel.

(h) IFRS-related activity - In continuation to the establishment of the Forum for the Implementation and Enforcement of IFRS within IOSCO, following the Department’s initiative, the forum held discussions regarding IFRS decisions. The ISA’s team dealing with this issue was an active participant in these discussions (as well as representatives from Australia, New Zealand, Switzerland, Portugal,
France, the UK, Germany and other countries), and continued to position itself as an active player in the area of IFRS.

3.b Joining the OECD and activity therein

Israel became a member of the OECD at the beginning of the reporting year. The inter-ministerial steering committee, which was established as part of the joining process, continues to work and is developing a work plan for the purpose of coordinating Israel’s activity with the organization. The ISA is a member of the steering committee and is actively involved in its meetings.

As part of its activity within the OECD, the Department took part in the discussions of the Corporate Governance Committee. The ISA was asked to participate in a hearing held for Russia as part of its joining process, and led a discussion regarding disclosure and transparency. In addition, the Department continued to assist in the activity of the Financial Market Committee, the Investment Committee, and the Working Group for the Prevention of Bribery of Foreign Officials.

3.c International Monetary Fund – Annual Report

At the end of 2010, the Department held meetings, together with the Research, Development and Economic and Strategic Counseling Department, with an International Monetary Fund (IMF) delegation. Discussions focused on reforms in the Israeli capital market and on updates (under Article 4, which is the IMF’s annual update on its reports regarding reporting countries). The ISA’s staff presented the characteristics of the Israeli capital market and its strengths, which enabled it to deal with the implications of the financial crisis relatively successfully. In addition, it presented the regulatory means used by the ISA to improve investor confidence and stabilize market volatility.

4. Study delegations

As part of ISA’s effort to achieve harmonization with securities legislation in developed countries and in order to update on financial trends, the Department initiated several study trips abroad as well as professional education activities in Israel:

- **A visit by BaFin (Germany) delegates to Israel** – in January 2010, the ISA hosted a two-representative delegation of the German Securities Authority BaFin. The purpose of the visit was to enhance understanding of various aspect of the EU regulation in general, and the supervision exercised in the German market in particular. The visit included a number of presentations by the German representatives, as well as individual meetings with representatives from various ISA departments. The issues discussed included regulation of mutual funds, annual reporting requirements, hedge funds and web-based trading platforms.

- **Study delegation to BaFin (Germany)** – ISA representatives visited the German authority in May 2010, as part of a study delegation. The purpose of the delegation was to learn about EU supervision over the of stability of investment firms, credit rating agencies, as well as regulation of investment analysts.

- **Delegation to the Polish Securities Authority** – the Department held, with the cooperation of ISA enforcement officials, a seminar at the Polish Securities Authority, following a request by the Polish Authority. The seminar included a presentation of the ISA’s enforcement tools and enforcement methods, for study and development
purposes by the Polish authority, as part of the ISA’s ongoing cooperation with European regulators.

- **Study delegation to the US capital market** – as every year, the Department participated in organizing the ISA’s annual delegation to the US, which includes a visit of ISA representatives to a number of regulatory authorities and capital market players, in order to learn about various developments in the US capital market.

5. **Cooperation on enforcement and exchange of information**

The ISA attaches great importance to this issue: The integration of the ISA into cooperation processes between entities supervising and enforcing securities laws is vital to meeting the ISA’s enforcement goals. More and more investigations conducted by the ISA require information and activity outside Israel, and in order to obtain optimal results, the Department cooperated with foreign authorities which are party to the multi lateral Information Exchange and Enforcement Cooperation Agreement under IOSCO (hereinafter – the IOSCO Agreement). In addition, the Department handled requests for information and assistance in judicial inquiries by foreign authorities which are not party to any agreement with the ISA.

5.a **Activity under the IOSCO Agreement, its main points and parties thereto**

One of the main elements of the ISA’s enforcement activity is its being party to an agreement under the multi lateral cooperation agreement between foreign authorities which are members of the IOSCO. Presently, 72 authorities are party to the IOSCO Agreement, many of them among the most significant leaders in their field worldwide, such as the US, Canada, UK, France, Germany, Japan, Brazil, India and Australia.

5.a.1 **Main points of the IOSCO Agreement and parties thereto**

1. Mutual assistance and exchange of information between authorities shall be for the purpose of enforcement and supervision of the laws of the requesting authority. Assistance is to include the gathering, seizing and transfer of information and documents to foreign authorities, as well as assisting in investigating and gathering testimony from alleged violators of the securities laws of the foreign country.

2. Cooperation between authorities is subject to the local laws applicable to each Authority. Assistance shall be provided, *inter alia*, in investigations and enforcement of laws pertaining to the following subjects:
   (a) Inside information, market manipulation, false reporting;
   (b) Listing, issuing, offering or sale of securities and reporting requirements thereof;
   (c) Market intermediaries, including licensed or registered investment advisors, joint investment brokers, dealers and transfer agents;
   (d) Markets, stock exchanges, clearing houses, and settlement entities.

3. The agreement bears no expiration date, but each Authority may terminate it at any time by submitting a 30-day notice.

4. Signatories to the IOSCO Agreement as of 2010 are: Albania, Alberta (Canada), Australia, Austria, Bahrein, Belgium, Bermuda, Brazil, British Columbia (Canada), BVI, Bulgaria, the Cayman Islands, China, Croatia, Cyprus, the Czech Republic, Denmark, Dubai, Finland, France, Germany, Greece, Guernsey Island, Hong Kong, Hungary, Iceland, India, Isle of Man, Israel, Italy, Japan, Jersey Island, Jordan, Kenya, Korea,
Lithuania, Luxembourg, Macedonia, Malaysia, the Maldives Islands, Malta, Mexico, Montenegro, Morocco, the Netherlands, New Zealand, Nigeria, Norway, Ontario (Canada), Poland, Portugal, Quebec (Canada), Romania, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Srpska, Switzerland, Syria, Thailand, Tunisia, Turkey, UK, Uruguay, US, West African Monetary Union.

5.a.2 Requests for assistance and judicial inquiries between the ISA and foreign securities authorities

The Department was in charge of handling incoming requests for assistance from foreign authorities as well as the ISA’s requests from foreign authorities. Requests for the transfer of information and assistance in judicial inquiries were made by direct contact between authorities, and – in lack of an agreement – via the International Department at the State Attorney’s Office, under the Legal Assistance between States Law of 1998.

As part of handling the requests for assistance, the Department organized, in cooperation with the Intelligence and Investigations Department, delegations of researchers for discussions and consultations so as to increase cooperation between the ISA and foreign authorities.

6. Regulation of custodians

In August of 2010, the inter-ministerial committee’s report on the regulation of custody services was published for public comment. This committee, which is chaired by the Head of the Department, is comprised of representatives from the ISA, the Finance Ministry, the Bank of Israel, the Ministry of Justice, the Stock Exchange and the Israel Tax Authority. The Committee was charged with providing regulatory recommendations for the custody field, with the aim of protecting investor assets and of the interests arising from such assets.

The report addresses custody of securities traded at the Tel Aviv Stock Exchange, as well as foreign securities held by Israeli investors. The report presents detailed recommendations for extensive, systemic regulation of the custody field, for each of the three financial regulators (the ISA, the Bank of Israel, and the Ministry of Finance).

Following the publication an exposure draft for its report, the Department received comments, mainly from the main providers of custody services in Israel, as well as from foreign custodians with global reach. In December 2010, the Department conducted a round table discussion of the Committee’s recommendations. A wide range of players in the custody field took part – both users and providers of custody services, including: Representatives from banks, brokerage firms, pension funds, insurers, mutual funds and ILN issuers. The Committee is expected to finalize its recommendations in 2011, for implementation by the relevant regulators.
XIII Information Systems Department

1. Electronic Reporting - MAGNA

The electronic reporting project is an internet-based information system for the collection and distribution of the entire range of reports required of entities subject to ISA's supervision: corporations, mutual funds, investment advice firms, portfolio management companies and underwriters. The project is designed so as to harness electronic communications technology and the internet to service the investing public and the entities supervised by the ISA.

The system handles all types of reports, including: prospectuses, annual financial statements, interim financial statements, immediate reports, reports on changes in the holdings of principal shareholders, reports on private allocations, purchase offer reports and reports on conflicts of interest in corporations. The system also handles prospectuses, immediate reports and monthly reports of mutual funds, forms for portfolio management companies, etc.

The project's objectives are as follows: to provide the public with immediate access to public information; equal distribution of information; increase efficiency of the supervision over the reliability of information; and to provide new analysis tools.

Since the day the system first became fully operational (in November 2003) and until the end of 2010, thousands of authorized signatories have signed up to use the system, 597,559 different reports were handled, including 116,175 in 2010 alone. These reports reached ISA staffers automatically, through the reporting website. Public reports were automatically distributed through the distribution website, as well as to the Stock Exchange and commercial information distributors. Thousands of users surf the system’s website (www.magna.isa.gov.il) daily, accessing the different reports of the aforesaid entities as well as processed data reports.

The project is among the most advanced of its kind worldwide, and is based on the most updated and advanced technologies in existence today. It provides technological solutions to such complex issues as unequivocal identification of those submitting the reports and information security. It has even won a number of prestigious IT excellence awards.

During 2010, a significant number of improvements have been implemented, such as: development and installation of new versions and adjustments of report forms to ongoing changes in legislation. For the fifth year running, the system played a significant role in the ISA's winning the Accessible Governmental Agency Award, in a competition conducted by the Finance Ministry among all Government ministries and public sector entities in the field of public service IT systems.

During the reporting year, the Department updated, changed and improved – on an ongoing basis - the MAGNA System, pretesting changes and verifying compliance with SLA (Service Level Agreement) requirements with the external service provider. This year, the Department implemented five new versions, which included approximately 180 changes, and conducted ongoing SLA supervision.

Following is a table summarizing MAGNA activity during 2010:
<table>
<thead>
<tr>
<th>Table 27: Summary of 2010 Data</th>
<th>Number / volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reports submitted through MAGNA - annual</td>
<td>116,175</td>
</tr>
<tr>
<td>Total volume of reports for 2010</td>
<td>30GB</td>
</tr>
<tr>
<td>Public reports submitted through MAGNA - annual</td>
<td>96,447</td>
</tr>
<tr>
<td>Non-public reports submitted through MAGNA - annual</td>
<td>19,728</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – Israeli Corporations</td>
<td>85,604</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual - dual-listed corporations</td>
<td>2,555</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual - mutual fund managers</td>
<td>23,463</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – underwriters and underwriting firms</td>
<td>481</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual - investment advice companies</td>
<td>162</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – investment portfolio managers</td>
<td>2,875</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual - investment marketing firms</td>
<td>429</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – mutual fund trustees</td>
<td>397</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – purchase offerors which are not publically traded companies</td>
<td>38</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – banks as employers of investment advisors</td>
<td>171</td>
</tr>
<tr>
<td>Total active forms on MAGNA</td>
<td>381</td>
</tr>
<tr>
<td>Total active forms on MAGNA – Israeli companies</td>
<td>140</td>
</tr>
<tr>
<td>Total active forms on MAGNA – dual-listed companies</td>
<td>27</td>
</tr>
<tr>
<td>Total active forms on MAGNA – mutual fund managers</td>
<td>98</td>
</tr>
<tr>
<td>Total active forms on MAGNA – mutual fund trustees</td>
<td>16</td>
</tr>
<tr>
<td>Total active forms on MAGNA – investment advisor firms</td>
<td>17</td>
</tr>
<tr>
<td>Total active forms on MAGNA –investment portfolio managers</td>
<td>21</td>
</tr>
<tr>
<td>Total active forms on MAGNA – annual – banks as employers of investment advisors</td>
<td>10</td>
</tr>
<tr>
<td>Total active forms on MAGNA – underwriting managers</td>
<td>24</td>
</tr>
<tr>
<td>Total reports submitted through MAGNA – annual – purchase offerors which are not publically traded companies</td>
<td>11</td>
</tr>
<tr>
<td>Total active forms on MAGNA – investment marketers</td>
<td>17</td>
</tr>
<tr>
<td>Total active signatories in the system</td>
<td>2,459</td>
</tr>
</tbody>
</table>

**Main activities in 2010:**

a. **Infrastructure upgrades**

Due to technological progress and new software and hardware products on the market, the MAGNA was upgraded to support new operating system Win7, conversion software Adobe Distiller 9, and the assimilation of Internet Explorer 8 was completed. Following these upgrades, the system now supports a wide range of operating systems and browsers used by reporting entities and members of the public visiting the website, both from Israel and abroad.
In addition, a number of significant infrastructure projects were initiated, using existing products: improvement of reporting site mechanisms; establishment of a new portal for commercial information providers, which are now connected to the system in order to receive MAGNA reports; improvement of the interface of the DRP (Disaster Recovery Plan) site of the system, etc.

b. Reinforced information security

Following a directive issued by the Approver Registry at the Ministry of Justice, and in light of information security risks, which have worsened over time, the electronic signature system was improved. The purpose of this project was to improve information security and to prevent, as far as possible, break-ins, disruptions, and impersonation. The encoding of messages is now consistent with the SHA2 Standard, and the signature key was upgraded to 2048 bytes.

c. New maintenance tender for MAGNA

The current agreement with Teldor for developing and maintaining the MAGNA system is due to expire towards the middle of 2011. In light of the system’s great complexity and importance, an overlap period of several months is required with whichever company will be awarded the tender. The ISA has issued a tender for the selection of a substitute provider, which will develop and maintain the system over the next few years. The tender is in its last stages, and the winner will be selected in the first quarter of 2011.

d. Personal MAGNA

The Personal MAGNA service, which aired in 2010, enables website surfers to register in order to receive real time alerts regarding the publication of reports. Alerts include links to report pages. Registered members can define up to ten different rules regarding reports or companies of interest. It is possible, inter alia, to define reports on principal shareholders in specific companies, specific financial statements of specific mutual fund managers; all financial statements published by reporting companies; etc.

e. MAGNA system administration

Another MAGNA-related field is system administration and the handling of reporting entities and persons authorized to report, including those applying for authorized person status. This year, the ISA processed approximately 700 forms authorizing or canceling authorized signatories. In addition, approximately 930 certificate extension applications were processed, approximately 190 new entities were registered, and approximately 190 detail update forms were processed. During the year, 59 entities changed their names, and 220 entities updated their details on MAGNA. In addition, the ISA sent approximately 150 inquiries to corporations due to discrepancies between reported data (such as incorrect ID numbers), and approximately 240 additional inquiries to companies for failure to meet the statutory requirements for the minimum number of authorized corporate signatories. Furthermore, the ISA processed the closing of corporations and other entities which ceased being reporting entities, improved its database concerning principal shareholders and replied to inquiries and questions submitted by reporting entities. Additionally, approximately 2,900
identification number verifications were carried out, mainly for advisor licensing applicants.

2. Document archiving and automated office

The system allows the archiving of all types of internal and external documents, including documents received electronically, whether by fax or in paper form (the latter are scanned into the system). The system enables the location and retrieval of any document, by type, according to specified criteria or free text.

The system is one of the most essential tools at the ISA, and is also used by the MAGNA for archiving and retrieving reports, some of which are distributed to the public as well (see Section 1 above). It also includes the AMIGO System, which archives electronic media clips. In addition, the system includes standard automated office functions, such as: internal and external e-mail, task management, appointment calendars, contact management and workflow. The system, which includes numerous proprietary features, is based on Lotus Notes Domino.

Main activities in 2010:

a. Split of public database

Due to the hundreds of thousands of documents having been archived, the non-public database reached its maximal storage capacity in 2010. Similarly to the process implemented a year earlier for the ISA’s public information database, the non-public database required splitting and changing. Following the change, non-public MAGNA reports and ISA documents are now separate. In addition, changes and revisions were made in the entire input and distribution mechanism of the MAGNA (as well as other interfacing systems using the archive). The project included, inter alia, implementing changes in reports and searches. The project, including changes in the interfaces of the various systems, was completed successfully.

b. Improved server redundancy

The Department conducted an extensive survey of all the functions and processes within the system. These functions were doubled in other servers, and a sophisticated mechanism was developed, which allows for automatic switching in case of failure. In case of software or hardware failure, the system will not shut down, since the alternative hardware and software will be activated.

c. Version upgrade

This year, the Department carried out a massive upgrade of all systems to Version 8.5.0, which includes new and improved capabilities for emailing, scheduling, work groups, etc. Following a complex and complicated process, all ISA servers were upgraded during the year. In addition, end-user stations were upgraded in two ISA sites simultaneously. These upgrades were carried out seamlessly, without system downtime or malfunctions. In addition, the Department conducted a series of training sessions on the proper use of the new product, followed by familiarization and support services until the new system is fully integrated.

d. Remote access to office applications

This year, the Department significantly expanded the project enabling secure remote access to ISA mailboxes, allowing mail to be sent and received seamlessly from home PCs. Dozens of virtual workstations were set up, in order to facilitate work and add
more employers to the service. The number of users doubled this year, and as of the end of 2010, the number of authorized users stands at 120. In addition, remote access allows users to access the ISA archive, their schedules, and use the operational system as though they were physically located in the ISA facilities.

e. Task management

During the fourth quarter of 2010, the Department began examining a new automated office product: A task and decision management and follow up system. After implementing the necessary adjustments, the Department began installing and assimilating the system, as well as training users. This activity is due to end in the first quarter of 2011.

3. Operational system

During 2010, the Department continued to develop and maintain the central computer system, which includes most of the information handled by the ISA: data on companies, mutual funds, investment advisors and portfolio managers, trading data, as well as data used by all ISA employees. In 2010, approximately 720 requests for system changes and improvements were carried out, covering a broad range of issues.

Main activities in 2010:

a. New developments

New IT developments carried out in 2010 are as follows: Handling of changes in the structure of mutual fund prospectuses and of reports issued by mutual fund managers (in accordance with the Prospectus Details Regulations) as well as establishing a central database of voter identities and manner of voting in general meetings called by reporting companies. In addition, preparations were made for the computerization of the supervision process over trading floors and the reception of data on foreign entities.

b. Technological improvements

The Department began upgrading the operational system’s technology in 2009. This upgrade consists of server replacement. Migration to a new database version (ORACLE Version 10), new operating system (Linux Version 5) and new IT infrastructure. The upgrading process was completed in the first quarter of 2010, and the system became fully operational.

4. The ISA website

During the year, the ISA’s website (www.isa.gov.il) was regularly updated with new content: information regarding the ISA, information on new legislation and regulations, news and publications, updated supervised-entity lists, and FAQs.

Main activities in 2010:

a. Infrastructure upgrades

Similarly to the upgrade made to the MAGNA System, which enabled the support of both new-generation and non-Microsoft browsers (see Section 1a above), a similar upgrade was made to the ISA website. As of 2010, the ISA’s website can be surfed using operating system Win7, the Explorer 8 browser, and a new version of PDF: Adobe PDF Reader 9.
b. English-language website

In 2010, the ISA placed significant emphasis on its English language website. The website was drastically improved, new content was added (including dynamic tables with statistical data of mutual fund assets and fees collected by fund managers). Such information is updated on an ongoing basis, and constitutes an additional tool in the ISA’s effort to open up the local capital market to foreign investors.

c. Direct access to the ISA via its website

In 2010, a new capability was added to the website, allowing investment advisors, investment portfolio managers and investment marketing entities to file complaints, using complaint forms. In addition, another capability allows the provision of information about those entities through a hotline.

5. Central Information System (CIS) – AMIGO

The CIS is a computerized information and knowledge management system with the following capabilities: locating information from various sources; collecting information and importing it into the system automatically and/or manually; retrieving data objects within the input collected from various sources; processing and analyzing the information; discovering and presenting relationships between entities; knowledge production; archiving information in the ISA archive; managing and distributing raw and/or processed information to ISA employees via the ISA’s e-mail system.

This year, a total of 186,872 information items were collected and fed into the system. Since the system was first installed, a total of 1,290,199 were fed into it.

6. Computing for the Investigations and Intelligence Department

a. Forensic computing

The Investigations Department’s advanced forensic computing system was built approximately three years ago, and has proven itself fully. The improvement and streamlining of the Investigations and Intelligence Department's activities are apparent and almost every case includes a large amount of information and documents uncovered during investigation. The system includes a server and storage space, along with sophisticated search and retrieval software, which allows users to copy and search vast quantities of electronic information. This year, the Information Systems Department implemented a large scale upgrade of the forensic system’s storage system to a more advanced and quicker version. In addition, storage capacities were increased, in order to address current needs and the increase in input volume created as part of investigations.

b. Vault

At the Investigations and Intelligence Department’s request, the Information Systems Department has purchased a “vault” for the secure transfer of documents and information between the ISA and banks, and is in the process of assimilating the system. This "vault" is to be used both for future receipt of incoming checking account files and for the receipt of securities account files which are presently transferred using CDs. This year, the system was activated on a pilot basis with some banks, and mechanisms were established that enable automatic receipt of input from the vault directly at investigators' workstations.
c. **Entity-relationship system**

At the Investigations and Intelligence Department’s request, and with the cooperation of its staff, the Information Systems Department participated in the characterization, identification of needs and preparation of an RFP for an entity-relationship system. The system will serve the Investigations and Intelligence Department staff in managing investigations and intelligence processes, including entity-relationship management and search of internal and external databases accessible through the internet. The new tender is due for publication in the first quarter of 2011.

7. **Forms and payments system**

During 2010, additional ISA online forms were uploaded to the Government payments server, activated by TEHILA. The forms are intended for use by various sectors in order to access the ISA on different issues. In 2010, approximately 13,000 forms were submitted and payments totaled approximately NIS 12.2 million.

The system transfers all forms filled by users and payments to the ISA’s internal information systems, over the internet, in real time. The data is available to users (through the use of a personal code) on the ISA website, where users can receive accurate and reliable information regarding the updated status of their inquiries.

8. **Trading irregularities system**

The BI system was created following a decision made by the ISA and the Stock Exchange to require an unequivocal identification number (representing the selling or purchase account) to be used along with other Exchange trading data, due to the growing number of traded securities and since the irregular trading system is dated and no longer meets current needs. Thus, it was decided to set up a new information system to research trading data at the ISA, according to the most advanced concepts and technologies available today in the field of BI (Business Intelligence). The purpose of the system is to confirm or refute irregularities automatically, as far as possible, thus enabling the ISA’s employees to handle events which clearly constitute unexplained irregularities. Phase A was launched at the beginning of January 2010, and the massive development of additional modules continued throughout the year.

**Main activities in 2010:**

a. Phase B, which began in April, included: Extending the infrastructure for built-in reports; developing reports and an irregular trading report system for trading intermediaries for the Investment Department; improving and extending data infrastructures; exercising the Slowly Changing Dimensions mechanism, which enables the presentation of data as at the date of the report rather than at their present value; improving and extending data worlds in the report generator; and developing a bi-directional interface for the Lotus system.

b. Phase C, which was launched in June, included the development of an infrastructure for the absorption of unequivocal identifiers of bank accounts used by ILN issuers, as well as adjusting the BI system (orders, transactions) to the presentation of identifying data of ILN issuers during trading.

c. Phase D, which was launched in August, included: Quality control of ILN reports; adjustments of irregulars logics; filing of reports issued by portfolio managers,
mutual fund managers and specific reports issued by mutual funds; filing of purchase offer reports; reception of real time data from the Stock Exchange; improvement of the accuracy level of panel calculations; changing the calculation system for opening bid time and closing bid time.

d. Phase E, which was launched towards the end of the year, includes infrastructure improvements as well as additional irregularities in the areas of trading control and supervision of intermediaries.

9. Knowledge management

The information and knowledge residing in the ISA and used by its employees are derived from internal information systems, external sources, and the employees themselves. The ISA's information resources include a large number of systems handling a variety of matters and employing a broad range of technologies and methods. Furthermore, ISA employees hold much knowledge requiring documentation, such as email documents and correspondences, undocumented phone calls, insights, etc.

In 2010, the ISA prepared and issued a public tender for the development and assimilation of the system. Later, the tender was cancelled by the Tenders Committee, since the bidders did not meet threshold conditions. Thus, the ISA prepared a new tender, which reflects a different perception of the project and opens up the tender to additional contenders. The new tender is due for publication in the first quarter of 2011.

10. Human resources system

At the request of the Secretary General, and in cooperation with the administration staff, the Information Systems Department participated in the characterization, identification of needs and preparation of an RFP for a Human Resources System. The purpose of the system was to meet the needs of the ISA’s human resources, including: management of employee files; management of recruitment, screening and orientation processes; organizational structure; occupations, positions and roles; training and continuing education; vacations and personal occasions; employee assessments; employee promotion; employment terms and benefits; welfare; discipline and recommendations; termination of employment, etc.

The tender was issued in the last quarter of 2010; deadline for offers and selection of winners are scheduled for the beginning of 2011.

11. Infrastructure: servers, communications, and information security

During 2010, extensive improvements were made to the ISA's IT infrastructure. These included:

a. Overhaul of the Jerusalem computer room, including: significant increase of electrical capacity, installation of new switchboards, UPS systems, fire detection and extinguishing system, upgraded air conditioning system, installation of a generator, etc.

b. Upgrading of communication networks in both ISA sites (Jerusalem and Tel Aviv) with advanced components, including LINUX-type network servers, which provide connectivity solutions for the various applications.

c. The upgrading of various information security tools protecting the ISA against break-ins, attacks of various kinds and viruses. Ongoing maintenance of all systems, procedure updates, and SLA control for both internal and external users.
d. Continued updating of all outdated PCs, printers and operating systems.

e. The above activities, and particularly those concerning the upgrade of communications infrastructure and information security, will continue throughout 2011.
XIV Public Affairs

1. Inquiries from the public

During the reporting year, the ISA processed 1,027 inquiries from the public (as compared with 663 in 2009). These include inquiries from individuals active in the capital market, such as investors, portfolio managers or investment advisors; attorneys representing individuals and/or reporting corporations; individuals who have been harmed or who wish to report irregularities or problems in the capital market as a whole, or in one of its sectors; external entities such as government bodies and others that refer various entities to the ISA; the media, including reporters and inquiries on general issues regarding the ISA's activity or reporting corporations; requests for information on the ISA or capital market entities supervised by it. Other inquiries include requests for information regarding the capital market coming from government entities or individuals. Such inquiries are handled according to the Freedom of Information Law of 1998.


In 2010, three requests for information were submitted to the ISA (as compared with 18 in 2009).

One request were answered in full; two were denied, since the information was classified by law or constituted information that may disrupt the proper functioning of the ISA or its ability to perform its duties.

It should be noted that most public inquiries involve requests for indirect information or guidance – rather than inquiries regarding specific cases. Responses to such questions naturally involve the provision of information, but are not included in the Director’s Report.

3. Contact details

In addition to contacting the ISA through its main office in Jerusalem, public inquiries may be addressed to the Director of Public Inquiries and Director for Implementation of the Provisions of the Freedom of Information Law at ISA’s Jerusalem’s office:

Address: 22 Kanfei Nesharim Street, Jerusalem 95464
Tel: 02-6556555
Fax: 02-6513646
Email: public@isa.gov.il
# Appendixes

## A. The ISA’s Budget for 2010

*(in NIS thousands)*

<table>
<thead>
<tr>
<th>Section no.</th>
<th>Section title</th>
<th>Approved budget for 2010</th>
<th>Updated budget for 2010</th>
<th>Implemented budget for 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001</td>
<td>GENERAL: total expenditure</td>
<td>144,230</td>
<td>144,230</td>
<td>129,344</td>
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<tr>
<td>1002</td>
<td>SALARIES: total</td>
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<td>73,950</td>
<td>73,129</td>
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<tr>
<td>1003</td>
<td>Salaries of ISA employees</td>
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<td>57,350</td>
<td>56,972</td>
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<tr>
<td>1004</td>
<td>Provision for pension and compensation</td>
<td>8,800</td>
<td>8,850</td>
<td>8,737</td>
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<tr>
<td>1005</td>
<td>Overtime</td>
<td>4,900</td>
<td>4,890</td>
<td>4,862</td>
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<td>1006</td>
<td>Temporary employees</td>
<td>270</td>
<td>350</td>
<td>339</td>
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<tr>
<td>1007</td>
<td>Salaries of interns and students</td>
<td>1,730</td>
<td>1,650</td>
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<td>1008</td>
<td>Chairman's salary</td>
<td>710</td>
<td>710</td>
<td>662</td>
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<td>1009</td>
<td>Expenses of ISA employees</td>
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<td>149</td>
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<td>2001</td>
<td>ACCOMPANYING EXPENSES: total</td>
<td>8,110</td>
<td>8,110</td>
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<td>2002</td>
<td>Training and continuing education program</td>
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<td>2003</td>
<td>Vehicle maintenance</td>
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<td>1,700</td>
<td>1,571</td>
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<td>2004</td>
<td>Car rentals</td>
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<td>110</td>
<td>32</td>
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<td>2005</td>
<td>Travel and living expenses in Israel, moving expenses</td>
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<td>4,900</td>
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<td>2006</td>
<td>Loan fund</td>
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<td>3001</td>
<td>MAINTENANCE: total</td>
<td>17,530</td>
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<td>3002</td>
<td>Organizational expenses</td>
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<td>1,130</td>
<td>1,126</td>
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<td>3003</td>
<td>Office supplies</td>
<td>700</td>
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<td>688</td>
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<tr>
<td>3004</td>
<td>Building maintenance and repairs</td>
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<td>Post and telephone</td>
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<td>3006</td>
<td>Equipment, machinery and furniture</td>
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<td>330</td>
<td>137</td>
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<td>Section no.</td>
<td>Section title</td>
<td>Approved budget for 2010</td>
<td>Updated budget for 2010</td>
<td>Implemented budget for 2010</td>
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<tr>
<td>------------</td>
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<td>--------------------------</td>
<td>--------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>4002</td>
<td>Licensing of investment advisors and portfolio managers</td>
<td>2,000</td>
<td>2,000</td>
<td>1,659</td>
</tr>
<tr>
<td>4004</td>
<td>Legal expenses</td>
<td>450</td>
<td>560</td>
<td>558</td>
</tr>
<tr>
<td>4005</td>
<td>Professional library</td>
<td>600</td>
<td>600</td>
<td>446</td>
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<tr>
<td>4006</td>
<td>Participation in int’l conferences</td>
<td>500</td>
<td>500</td>
<td>222</td>
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<tr>
<td>4007</td>
<td>IFRS (participation)</td>
<td>1,900</td>
<td>1,900</td>
<td>1,224</td>
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<tr>
<td>4008</td>
<td>Auditing of corporations, mutual funds and advisors</td>
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<td>4010</td>
<td>Investor education</td>
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<td>73</td>
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<td>4011</td>
<td>Counseling services to the ISA</td>
<td>1,000</td>
<td>884</td>
<td>662</td>
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<tr>
<td>4012</td>
<td>Seminars</td>
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<td>223</td>
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<tr>
<td>4015</td>
<td>Academic research fund</td>
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<td>370</td>
<td>176</td>
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<tr>
<td>4016</td>
<td>International relations</td>
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<tr>
<td>4017</td>
<td>Internal auditing</td>
<td>200</td>
<td>206</td>
<td>205</td>
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<tr>
<td>4018</td>
<td>Preparation of financial statements</td>
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<td>500</td>
<td>410</td>
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<tr>
<td>5003</td>
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B. The ISA’s Approved Budget for 2011
(in NIS thousands)

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<th>Section no.</th>
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<tr>
<td>GENERAL: total expenditure</td>
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In accordance with the decision of the ISA Finance Committee, with the approval of the Knesset Finance Committee, the ISA will reduce its fixed fees by 40%, for the next four years. This reduction is expected to result in a deficitary budget which will be financed through surpluses from previous years.