

Joint Investment Trust (Distribution Commission) Regulations, 5766-2006

By virtue of my authority under sections 59, 62, 63, 64, 79 and 131(a) of the Joint Investment Trust Law, 5754-1994 (hereafter — the Law), in accordance with a proposal of the ISA and with the approval of the Finance Committee of the Knesset, I enact the following regulations:

Definitions:

1 In these regulations –

"*Bonds*" – with the exception of bonds given to realization or conversion into other securities;

"*Rating Company*" – a company that rates debt according to the solvency of the bonds' issuer, authorized by the commissioner of capital market, insurance and savings in the Ministry of Finance, according to section 41A of the Income Tax Ordinance (Rules for Authorization and Management of Provident Funds), 5724-1964;

"*Exposure to shares*" – the value of shares held by the fund, jointly with liabilities and value of assets equal to the activities in share derivatives, determined by means common for its calculation;

"*Commencement Date*" – within the definition thereof under Regulation 6;

"*Shares*" - including options, as well as assets whose function is to generate results similar to those achieved in share investment, or similar to the variations in share index, or to bring the results included in a negative correlation to the aforesaid results, with the exclusion of bonds given to realization or conversion into other securities;

"*Distributor*" – distributor that is not an investment marketer within the meaning thereof in the Regulation of Investment Advise Law.

"*Type of Fund*" – Fund Type 1, Fund Type 2, Fund Type 3 – accordingly;

"*Activities in derivatives*" – holding and creation of options and futures and short sale of securities, whose intent is generate results similar to investment results in shares, or similar to the variations in share index, or to bring the results included in a negative correlation to the aforesaid results;

"*Fund Type I*" – a fund whose fund manager is required, according to the fund's investment policy, to invest at least 85% of the fund's net value of assets in one or more of the following:

- 1) Bonds issued by the State of Israel, providing their date of redemption is no further then two years away from the date of their purchase by the fund, or that their interest rate is adjusted at least once a year;
- 2) Bonds rated by a rating company at the top of its grading scale, providing their date of redemption is no further then two years away from the date of their purchase by the fund;
- 3) Deposits,
Excluding the aforesaid fund whose investing policy might expose it to shares, in absolute value rates, that is higher then 10%;

"Fund Type 2" – with investment policy according to which its rate of exposure to shares, in absolute value rates, might be higher then 50%;

"Fund Type 3" – with investment policy that differs from *Fund Type 1* and *Fund Type 2*;

"Rate of exposure to shares" – rate of exposure to shares relative to the net value of fund's assets.

Distribution Commission:

2. (a) a fund manager is authorized to pay the distributor a commission, as provided for under Regulation 3, for fund units under the management of a fund manager held by a distributor (henceforth – distribution commission), providing the aforesaid distributor had confirmed his agreement to sign a contract with any fund manager, that will require his services, on the basis of identical distribution commission for provision of equal services.
(b) Where there was no agreement between a fund manager and a distributor pertaining the distribution commission, as aforesaid in clause (a), the distributor is authorized to charge a unit purchaser the same distribution commission it would have charged a fund manager, in case there was an agreement signed between them to that effect; providing the rate of the distribution commission will not fluctuate due to units being issued by various fund managers which did not sign an agreement pertaining distribution commission with the aforesaid distributor.
(c) There is nothing in this regulation to prevent a distributor to charge a unit purchaser another commission for the purchase of a unit, its holding or redemption, providing it will not fluctuate due to units being issued by various fund managers.

The rate of a distribution commission

3. A distributor shall not charge and a fund manager shall not pay a distribution commission, for each day a unit of a fund under fund manager's management is held by a distributor, in a sum that is in excess

of a units redemption price published on that day; where there was no redemption price published on that day – the latest redemption price published prior to that date, and multiplied by one of the following, according to the type of fund as stated in the fund's prospectus or in the report submitted under the regulations 4 or 7:

- i. Fund of type 1 – 0.25%/365;
- ii. Fund of type 2 – 0.8%/365
- iii. Fund of type 3 – 0.4%/365

Classification of funds

4. A fund manager that manages a fund shall state in a fund's prospectus the classification of a fund; where the investment policy of a fund had been changed in a way that changes its classification, the fund manager shall state this change in investment policy as well as the new classification of the aforesaid fund in the report submitted under section 61 of the Law.

Units exempt from commission

5. A distributor shall not charge a distribution commission on the following units:
 - i. Units purchased by a portfolio manager for a client tied to him by an agreement for portfolio management, as defined under the Regulation on Investment Advice Law, however a distributor that has no holdings in a fund manager is authorized to charge a distribution commission for units purchased by a fund manager, controlled by him, for a client tied to a portfolio manager by an agreement for portfolio management;
 - ii. Units purchased by a unit owner prior to a commencement date, and which will show proceeds in the hand of the owner, created after the commencement date, as if created from units acquired prior to commencement date; however a distributor is authorized to charge a distribution commission for fund units purchased by the owner prior to commencement date, if on August 10, 2005, the fund has been managed by a fund manager controlled on that date by the same distributor or by a company controlling the aforesaid distributor, and on the date of charging the commission the fund is managed by a fund manager tied to a distributor by means of a distribution contract.
 - iii. Units of a fund registered for trade on the TASE

Effective date

6. The effective date of these regulations is on April 1, 2006.

7. Prior to the effective date, a fund manager shall submit to the ISA and the stock exchange, a report detailing all types of funds of all funds under its management.

Ehud Olmert
Minister of Finance

February 7, 2006.
Tet Shvat, 5766