

"Underwriting obligation"¹ – an obligation to acquire securities that are offered in a prospectus to the extent they are not acquired by the public, as defined in Securities Law - 1968;

"Affiliation" – of a person to a financial asset – is any of the following:

- (1) The financial asset is under the management of or issued by that person,
- (2) That person or a person acting on his/her/its behalf that is entitled, directly or indirectly, to receive a benefit or distribution fee as per Paragraph 17(B)(3) to (5), from a person other than the acquirer or a holder of a financial asset, in relation to a transaction involving the financial asset or to the continuation of its being held; for the purpose of this definition "*a person*" – includes a person controlling that person or being controlled by either that person or the person controlling that person, an officer of one of these, an employee of one of these, or an employer of one of these;

"Member of a Stock Exchange" - as defined in Paragraph 50A of the Securities Law

"Corporation" - as defined in the Companies Ordinance;

"Banking (Licensing) Law" - the Banking (Licensing) Law 5741-1981;

"Pension Advice and Marketing Law" – the Regulation of Financial Services (Retirement Savings Advice and Retirement Savings Marketing) Law 5765 – 2005²

"Joint Investments Law" – the Joint Investment in Trust Law 5754-1994;

"Penal Law" – the Penal Law 5737-1977;

"Securities Law" – the Securities Law 5728-1968;

"Regulation of Provident Funds Law" - the Regulation of Financial Services (Provident Funds) Law 2005 – 5765³

"Underwriter" – whoever obligates himself to an underwriting obligation;

"Investment advisor" or **"advisor"** – a person who engages in investment advice

"Investment advice" – rendering advice to others regarding the feasibility of an investment, holding, purchase or sale of securities or of financial assets; for this purpose, "*advice*" –whether direct or indirect, including by way of advertising, circulars, opinions, by mail, facsimile or any other means, except advertising by the State or by a corporation fulfilling a function under law as part of its functions;

"Insurer" and "insurance agent" – as defined in the Insurance Business Control Law 1981-5741

"Structures" – investment whether in trust or in any other way, that a yield or savings on it are calculated in accordance with the formula based on changes in one or several of the following:

- (1) Index or several indexes;
- (2) Securities price (one or several);
- (3) Commodity or commodities price;

¹ According to the 2004 amendment to the Securities Law, until publication of Securities Regulations to Sections 17A, 17C, 17D, and 56(c) or until a time set by them, this definition will be: "an obligation to purchase securities offered in a prospectus in the event they are not purchased by the public."

² *Sefer Hachukim*, 2024, 5765, p. 918

³ *Sefer Hachukim*, 2024, 5765, p. 889

- (4) Prices of options or future contracts;
- (5) Differences in interest rates;
- (6) Exchange rate or differences between different exchange rates; with the exception of investment that insures, without conditions, trust payment with adjustments in accordance with Paragraphs (1) or (2) henceforth, if investment terms stipulated, without conditions, the payment as aforesaid in Paragraph (3), merely if the choice given between the two or more subscribers will secure payment which is the higher of the two:
 - (1) Index differences, that is not a Securities index
 - (2) Differences in foreign exchange rates;
 - (3) Fixed or fluctuating interest rate;

Minister of Finance, in consultation with the ISA and with the approval of the Financial Committee of the Knesset, may regulate investment, aforesaid not withstanding, that is included in this definition or that is not included in it;

"Fund Manager" – as defined in Paragraph 4 of the Joint Investments Law;

"Marketing Agent" or **"Marketer"** a person engaging in investment marketing;

"Investment portfolio manager" or **"portfolio manager"** – a person who is engaged in managing investment portfolios;

"Blind trust" – the management of investment portfolios for a client who does not have the right to give orders or instructions regarding securities or financial assets acquired, held or sold for him;

"Executive officer" – as defined in Chapter 4A of the Companies Ordinance;

"Investment portfolio management" – the effecting of transactions in the investment accounts of others on a discretionary basis;

"Securities" – as defined in Paragraph 1 of the Securities Law, except securities that are not listed for trading on a stock exchange, securities issued by the government and foreign securities, or as may be prescribed by the Minister of Finance in consultation with the ISA and with the consent of the Knesset Finance Committee;

"Foreign securities" – securities listed for trading on a foreign exchange or on a regulated foreign market or shares or units in a fund listed outside of Israel;

"Financial assets" – units as defined in the Joint Investments Law, options, futures contracts, structures, as well as professional training (*kranot hishtalmout*) funds or as prescribed by the Minister of Finance, in consultation with the ISA and with the consent of the Knesset Finance Committee;

"Transaction" – a transaction in securities or financial assets;

¹**"Companies Ordinance"** – the Companies Ordinance [New Version] 5743-1983;

"Investment Marketing" – advice rendered to others regarding the feasibility of the investment, holding, purchase or sale of securities or of financial assets by an advisor that is affiliated with a financial asset; for this purpose "advice" – investment advice as defined above.

"Licensed corporation" – a licensee corporation under this Law;

¹Under the Interpretation Law 5738-1981, the word "person" includes a corporation.

"Associated corporation" – a corporation associated with another corporation - a corporation which meets one of the following:

- (1) it controls the other corporation;
- (2) it is controlled by the other corporation;
- (3) another person controls it and the licensed corporation.

"Savings plan" – a savings plan that has received the approval of the Minister of Finance and the Knesset Finance Committee pursuant to the Encouragement of Savings, Income Tax Reductions and Guarantee of Loans Law 5717-1956;

"ILN" Index Linked Note – as defined in the Tel Aviv Stock Exchange Regulations

"Stock exchange regulations" - as defined in Paragraph 46 of the Securities Law

"Bank" **"foreign bank"** and **"banking corporation"** – as defined in the Banking Law (Licensing)

"Management company" and **"professional training funds"** (*kranot hishtalmout*) – as defined in the Regulation of Provident Funds Law

"Family member", **"principal shareholder"**, **"equity"**, **"control"**, **"stock exchange"**, **"holding"** and **"acquisition"** – as defined in Paragraph 1 of the Securities Law;

"Joint investment mutual fund", **"open fund"**, **"futures contract"** and **"regulated market"** – as defined in Paragraph 1 of the Joint Investments Law;

"Option", **"futures contract"** – as defined in Paragraph 64(b) of the Joint Investments Law;

"Partnership" and **"limited partnership"** – as defined in the Partnerships Ordinance [New Version] 5735-1975.

Chapter 2: Licensing Obligation

Licensing Obligation

[Amended: 5765-2005 "Bahar Act"]

2. (a) No person shall engage in giving investment advice unless he is a licensed advisor; an individual licensee may engage in giving investment advice as an individual or as an employee of a company or of a partnership that is a licensed advisor or licensed portfolio manager that also engages in advice, or as an employee or partner of a partnership that is a licensed advisor.
- (b) No person shall engage in investment portfolio management without being a licensed portfolio management and if such person is an individual if he is a licensee working in a corporation that possesses an investment portfolio management license.
- (b1) No person shall engage in investment marketing unless he is a licensed marketing agent; an individual licensed as a marketing agent is entitled to practice investment marketing either as a self-employed individual or as an employee of a company that holds marketing license, or portfolio management license, which also engages in marketing, or as an employee or a partner in a partnership that is a licensed marketing agent.

- (b2) Rules of Subparagraph (b1) notwithstanding, an institutional body may engage in investment marketing of the financial assets managed or issued by it, and of those assets only, even though it doesn't hold a marketing license. However, those engaging in financial marketing in its behalf must be licensed marketing agents. An institutional body engaged in investment marketing in accordance with this Subparagraph will come under the rules of chapters C, and E to G pertaining to licensed marketing agents.
- (c) Notwithstanding the stipulations of Subparagraphs (a) and (b1), a licensed portfolio manager may engage in investment advice or in investment marketing, but only in one of the two. However, if the portfolio manager is a corporation affiliated with an institutional body or a licensed investment marketing agent, it will not be entitled to engage in investment advice.
- When operating as an investment advisor outside of the framework of portfolio management, a portfolio manager will be subject to the same stipulations of the law applicable to licensed investment advisors, and when engaging in investment marketing, will be subject to the stipulations in the law applicable to licensed marketing agents.
- (d) The provisions of Subparagraphs (a) to (b1) may not prevent-
- (1) an intern for the receipt of a license under this Law, from working under the supervision of a licensee in the manner and under the conditions set out in the Regulations, provided that such person may not engage in investment advice or investment marketing and may not manage investment portfolios;
 - (2) an unlicensed person from working under the supervision of a licensee, provided that such a person may not engage in investment advice or investment marketing and may not manage investment portfolios. 5
 - (3) a licensee, as defined under the Retirement Savings Advice and Marketing Law, to provide retirement savings advice or marketing, as relevant, as defined by the aforementioned law in regard to a financial product as defined by the same law, which is also a financial asset.

Activities That Do Not Require Licensing

[Amended: 5757- 1997]

[Amended: 5765-2005 "Bahar Act"]

3. (a) The following activities do not require a license under this Law:
- (1) (repealed);
 - (2) (repealed);
 - (3) investment advice or investment portfolio management for others provided they do not exceed five in number during one calendar year, by a person that doesn't engage in investment advice or

- investment portfolio management as part of his work for a licensed or banking corporation;
- (4) investment advice in the communications media;
 - (5) investment advice given by a person by virtue of his being a member on the investment committee of a corporation or a member of a board of directors only to that corporation as part of the fulfillment of his function as a member of such committee or board;
 - (6) management of the investment portfolio of a corporation by a person doing so as part of his position in such corporation;
 - (7) investment advice or investment portfolio management for a spouse, parent or child of one of these;
 - (8) investment advice by a corporation whose principle business is the assessment of the value of a corporation, provided that it does not engage in any other investment advice or in portfolio management;
 - (9) investment advice or investment portfolio management by an accountant, lawyer or tax consultant that is auxiliary to the provision of client services in such profession;
 - (10) investment portfolio management by a person appointed by order of a competent court or tribunal to deal with the assets of another as part of the performance of his duties;
 - (11) investment advice to a corporation which is classified as a type defined in the first addition to Securities Law.
- (1a) Notwithstanding the provisions of Subparagraph (a)(3), whoever is providing investment advice or investment portfolio management ,as aforesaid in that Subparagraph, and does not possess a license in accordance with this law –
- (1) rules of chapter 3 or 4, according to the matter, will apply to him as if he was in possession of a license;
 - (2) will notify a client, to whom he is providing investment advice or services of investment portfolio management, prior to signing a contract with him, that he is not a licensee, and if he was a licensee in the past – will state the reasons for his license termination, as well as indicate if he has an insurance as is required from the licensee, in accordance with this law.
- (2a) Notwithstanding the provisions of Subparagraph (11)(a), whoever is providing investment advice, as aforesaid in that Paragraph, and does not possess a license in accordance with this law –
- (1) rules of chapter 3, with the exclusion of Paragraphs 13, 14, 16 and 18, will apply to him as if he was in possession of a license;
 - (2) will notify a client, to whom he is providing investment advice, prior to signing a contract with him, that he is not a licensee, and if he was a licensee in the past – will state the reasons for his license termination, as well as indicate if he has an insurance as is required from the licensee, in accordance with this law.

- (b) Notwithstanding the provisions of Subparagraph (a), investment advice in the communications media, whether by a licensee or by a person who does not possess a license, shall include a notice from the person giving the advice as to whether or not he has a personal interest in the matter, and a notice that the advice given is not a substitute for advice that takes into account the special circumstances and needs of each person.
- (c) Rules of Paragraphs 13, 14, 16 and 18 will not apply, in regard to investment advice given by a licensee to a corporation, as aforesaid in Subparagraph (11)(a).

Prohibited Acts by Licensee

[Amended: 5757-1997]

[Amended: 5765-2005 "Bahar Act"]

- 4.
- (a) An individual licensee may not hold nor purchase securities for himself.
 - (b) An individual investment portfolio manager may not manage investment portfolios for a relative or for a corporation in which he or his relative has control.
 - (c) The prohibition in Subparagraphs (a) or (b) may not apply in respect of the following:
 - (1) securities issued by the State of Israel;
 - (2) securities issued by the corporation for which the licensee or his spouse works (in this Paragraph and in Paragraph (2a) and (2b) – licensee) or securities issued by the corporation that controls aforesaid corporation, and that were offered to a licensee as part of the compensation program for employees in accordance with Paragraphs 15b(1) or (2) of the Securities Law, provided a licensee transferred these securities within seven days of the purchase, into a blind trust, and in case limitations were applicable to the sale of these securities, in accordance with Paragraph 15c(a)(1) of the Securities Law, within seven days of the expiration period that was defined in accordance with the same Paragraph; if a licensee keeps the acquired securities, as aforesaid in this Paragraph, those said securities together or separately with securities as aforesaid in Paragraphs (1), (2a), (2b), (3), (4), (6) or (7), may not be transferred to a blind trust by a licensee – however rules in accordance with Paragraph 52I(b) of the Securities Law will apply to their sale, with the required amendments;
 - (2a) Securities held by a licensee in a corporation, at the time that a corporation had offered its securities to the public for the first time, and this matter –
 - (a) rules under Paragraph (2), with required amendments, will apply, to a transfer of securities into aforesaid blind trust, if a licensee does not hold aforesaid securities in a blind trust, rules under Paragraph 15 will apply to the sale or investment advice of aforesaid securities; 7

- (b) rules of Subparagraph (a) notwithstanding, if a licensee is an interested party and an employee or an interested party and an executive officer in a said corporation, he is entitled not to transfer securities to a blind trust and is entitled to conduct transactions, for himself, in said securities; in aforesaid case the licensee will not advise and will not conduct transactions for his clients in aforesaid securities of an aforesaid corporation, and will immediately notify all his clients about him being an interested party in an aforesaid corporation and about him being prevented from providing advice or conducting transactions for them in aforesaid securities; (c) rules under this Paragraph will apply to possession of securities in one corporation only or in a corporation connected to it;
- (2b) securities of a corporation that were held by a licensee prior to him acquiring a license, provided a licensee has transferred these securities within seven days from his coming into possession of a license, into a blind trust and in case limitations were applicable to the sale of these securities, in accordance with Paragraph 15c (a)(1) of the Securities Law, within seven days of the expiration period that was defined in accordance with the same Paragraph; however if a licensee is an interested party and an employee or an interested party and an executive officer in aforesaid corporation, he is entitled to transfer securities into a blind trust as well as to conduct transaction for himself in aforesaid securities; in case a licensee will not advise and conduct transactions for his clients, in regard to securities of an aforesaid corporation, and will immediately notify all his clients about him being an interested party in this corporation and therefore is prevented from providing advice or conducting transactions for them in aforesaid securities; rules of this Paragraph will apply in regard to ownership of securities in one corporation only or in a corporation connected to it;
- (3) units in an open mutual fund;
- (4) investments in provident funds;
- (5) securities purchased by a trustee in a blind trust and held for the benefit of an individual licensee by such trustee.
- (6) foreign securities issued by a corporation that does not have securities registered for trade on the Stock Exchange, and that a registered trade value of its securities is higher than a sum equal to two hundred million American dollars in NIS, or another sum stipulated by the decree of Minister of Finance, in accordance with the advice given by the ISA or in consultation with it and with the approval of the Financial committee of the Knesset; in this case- "*foreign securities*" – with the exception of securities or units of a fund listed outside Israel;

- "registered value" – amount of foreign securities issued for trade by a corporation, in a place where they were bought, multiplied by the closing price of these securities by the end of a trading day, prior to the trading day on which they were bought; 8
- (7) ILN (Index Linked Notes).

Application for License

[Amended: 5765-2005 "Bahar Act"]

5. (a) A person seeking to engage in investment portfolio management, investment marketing or in investment advice shall apply to the ISA for the appropriate license.
- (b) The applicant shall include in his application for a license, documents and reports prescribed by the Minister of Finance after a consultation with the ISA, as set out in Subparagraph (a),
- (c) The ISA may request additional details, documents or reports from the applicant, if it is of the opinion that such are necessary, for the purpose of its decision on the application.

Decision of the ISA on Applications

[Amended: 5765-2005 "Bahar Act"]

6. Where the ISA is of the opinion that an application should be approved, it shall grant a license to the applicant; where the ISA is of the opinion that conditions should be stipulated in the license, or that the application should not be approved, it may notify the applicant of its reasons and shall give the applicant an opportunity to make submissions before it, prior to handing down its decision.

Conditions for Granting Investment Advisor and Investment Marketer Licenses

[Amended: 5765-2005 "Bahar Act"]

7. (a) The ISA shall grant an advisor's license or a marketer's license, as applicable, to an individual applicant the following conditions in respect to such an applicant are satisfied:
- (1) he/she is at least twenty-one years old;
 - (2) he/she is an Israeli citizen or resident;
 - (3) he/she has not been convicted of an offense;
 - (4) he/she has passed professional examinations, the subjects and procedures of which are prescribed in the Regulations;
 - (5) he/she has completed an internship for the period of time and manner as prescribed in the Regulations;
 - (6) he/she complies with the conditions and amounts prescribed in the Regulations regarding insurance:
- (b) The ISA shall grant an advisor's license or a marketer's license, as applicable, to an applicant that is a partnership, if it is satisfied that the following exist in respect to such an applicant:
- (1) the partners are licensees; 9

- (2) the partnership has undertaken that the persons who will be engaged in rendering investment advice or investment marketing on its behalf are its employees or partners, and are licensees;
 - (3) the partnership meets the conditions and amounts prescribed in the Regulations with regard to insurance:
- (c) The ISA shall grant an advisor's license or a marketer's license, as applicable, to an applicant which is a company if the applicant is satisfied that the following conditions:
- (1) the company has undertaken that the persons engaged in rendering investment advice or investment marketing on its behalf are its employees and are licensees;
 - (2) the company has undertaken that no person whom it knows to have been convicted of an offense shall serve as its executive officer;
 - (3) the company's equity is not less than the amount prescribed in the Regulations;
 - (4) the company has insurance, or a bank guarantee, or a deposit, or securities in the relative and absolute amounts, and under the conditions prescribed in the Regulations;
 - (5) the company does not engage in underwriting.
- (c1) The ISA may not grant an advisor's license to an applicant, even though this applicant complies with the rules under Subparagraphs (a) to (c), if he falls under one of the following categories:
- (1) a holder of marketing license or an institutional body;
 - (2) retirement savings agent, as stipulated under the Retirement Savings Advice and Marketing Law;
 - (3) insurance agent;
 - (4) a person controlling or holding more than 10% of any means of control in one of those designated in Subparagraphs (1) to (3);
 - (5) a person controlled by one of those designated in Subparagraphs (1) to (4). However a banking corporation controlled by a controlling stakeholder of an institutional body or by person holding more than 10% of any means of control in an institutional body, will be entitled to engage in investment advice, subject to conditions set by the Chairman of the ISA to prevent the abuse of conflict of interests in rendering investment advice, and solely contingent on the proscription that the aforesaid banking corporation be forbidden to render advice regarding financial assets with which the aforesaid institutional body is affiliated;
 - (6) an officer or employee of those designated in Paragraphs (1) to (5).
- (c2) The ISA may not grant a marketing agent license to an applicant, even though he complies with the rules under Subparagraphs (a) to (c), if he falls under one of the following categories:
- (1) licensed investment advisor
 - (2) banking corporation, with the exclusion of a bank or a foreign bank stipulated in Paragraph 27I of the Banking Law (Licensing);

- (3) retirement savings advisor as defined in the Retirement Savings Advice and Marketing Law;
- (4) a person controlling one of the designated in Paragraphs (1) to (3)
- (5) a person controlled by one of the designated in Paragraphs (1) to (4)
- (6) an officer or employee of those designated in Paragraphs (1) to (5)
- (d) The ISA may refuse to grant an advisor license or a marketing agent license, as applicable, to an applicant for any one of the following:
 - (1) the same reasons as it is authorized to cancel or suspend a license under this Law
 - (2) if it is believed that circumstances exist, which render the applicant unfit to hold an investment advisor or investment marketing agent license, as applicable, pertaining to professional requirements, and in case of a corporation –circumstances exist, as mentioned above, in regard to one of its corporate officers or controlling stakeholder;
 - (3) if a criminal investigation is conducted against him as suspect of an offence designated in the definition "found guilty of a crime".
- (d1) The ISA's ruling according to Subparagraph (d) will be subject to the stipulations of Paragraph 10(f) with the required changes;
- (e) Rules for the purposes of Subparagraphs (a)(4) through (6), (b)(3) and (c)(3) and (4) shall be made by the Minister of Finance, either in general or in respect to classes of applicants, in consultation with the ISA and with the consent of the Finance Committee of the Knesset.
- (f) The Minister of Finance may, at the suggestion of or upon consultation with the ISA and with the consent of the Knesset Finance Committee, prescribe cases in which the applicant shall be exempt from the duty to undergo an internship or to pass examinations, or both.

Exemption from Examination and Internship Requirements in the Conversion of an Investment Advice or Investment Marketing License

7A. A licensed individual relinquishing his/her advisor license and applying for a marketing agent license, as well as a licensed individual relinquishing his/her marketing agent license and applying for an investment advisor license, will be exempt from the required internship and examinations stipulated under Paragraphs (7)(a)(4), for the purpose of acquiring the requested license.

Conditions for Granting a Portfolio Manager License

[Amended: 5757-1997]

[Amended: 5765-2005 "Bahar Act"]

- 8.** (a) The ISA shall grant a portfolio manager's license or a marketer license to an applicant who is an individual if it finds that the following exist in respect of such applicant:
- (1) he is at least twenty-one years old;
 - (2) he is an Israeli citizen or resident;
 - (3) he has not been convicted of an offense;

- (4) he has passed professional examinations the subjects and procedures of which are prescribed in Regulations;
 - (5) the applicant has acted as an investment advisor for the period and in the manner prescribed in the Regulations;
 - (6) the applicant meets the conditions and amounts prescribed in the Insurance regarding regulations:
- (b) The ISA shall grant a portfolio manager's license to an applicant that is a corporation it is satisfies the following: 10
- (1) the corporation does not engage in underwriting and engages only in investment portfolio management, investment advice or investment marketing, the execution of transactions on the Stock Exchange, and in the execution of incorporating acts required for such end; for this purpose, "incorporating acts" – including investment in various types of deposits in Israeli currency or foreign currency, and investment in savings plans approved by the Minister of Finance and the Knesset Finance Committee under the Encouragement of Savings, Income Tax Reductions and Loan Guarantees Law, 5717- 1956;
 - (2) the corporation has undertaken that the persons who will be engaged in the management of portfolios on its behalf are employees of the corporation, who are portfolio management licensees;
 - (3) the corporation has undertaken that no person whom it knows to have been convicted of an offense shall serve as its executive officer, as well as how's license were annulled or suspended in accordance with Paragraph 35(A)(4) or (5) – for the period of suspension or annulment, in accordance with the matter;
 - (4) the equity of the corporation is not less than the amount prescribed in the Regulations;
 - (5) the corporation has insurance, a bank guarantee, a deposit, or securities in the amounts, at the rates and under the conditions prescribed in the Regulations;
- (c) The ISA may refuse to grant a portfolio manager's license to an applicant for any of the following reasons:
- (1) the same reasons as it is authorized to cancel or suspend a license under this Law.
 - (2) if it is believed that circumstances exist, which render the applicant unfit to hold a portfolio manager license, as applicable, pertaining to professional requirements, and in case of a corporation – circumstances exist, as mentioned above, in regard to one of its corporate officers or controlling stakeholder;
 - (3) if a criminal investigation is conducted against him as suspect of an offence designated in the definition "found guilty of a crime".
- (c1) The ISA's decision according to Subparagraph (c) will come under the rules of Paragraph 10(f) with the required changes;

- (d) Regulations for the purposes of Subparagraphs (a)(4) through (6) and (b)(4) and (5) shall be made by the Minister of Finance, either in general or in respect of classes of applicants, in consultation with the ISA and with the consent of the Knesset Finance Committee.
 - (e) The Minister of Finance may, at the suggestion of or upon consultation with the ISA and with the consent of the Knesset Finance Committee, define cases in which the applicant shall be exempt from an internship period or from examinations, in whole or in part, or both.
- 8A.** The ISA may grant a license, in accordance with this law, to an individual, even though rules of Paragraph 7(A)(4) or (5) or in Paragraph 8(A)(4) or (5), in accordance with the matter, do not apply to him if it was convinced that for special reasons he is eligible to receive the aforesaid license, by taking into consideration his education and work experience.

Activity by Banking Corporation

[Amended: 5765-2005 "Bahar Act"]

- 9.**
- (a) A banking corporation is not entitled to engage in portfolio management.
 - (b) A bank as well as any other banking corporation, as permitted under the Banking (Licensing) Law are entitled to engage in rendering investment advice without having to obtain a license as stipulated in this (Regulation of Investment Advice, Investment Marketing and Portfolio Management) Law, providing that conditions stipulated in Paragraph 7(c1) do not apply to it, with the exception of the condition stipulated under subparagraph (4) regarding the holding of more than 10% of any type of means of control in an institutional body that is an insurer, or pertaining to their control of an insurance agent as stipulated in Paragraph 11(b)(2) of the Banking (Licensing) Law. However, those engaging on their behalf in investment advice shall all be their employees and shall be licensed investment advisors;
“Bank” – a corporation that has received a bank license under Paragraph 4 of the Banking (Licensing) Law.
 - (c) The provisions of Chapter 3 and Paragraph 25(b) that apply to a licensed advisor will also apply to a bank or any another banking corporation engaged in investment advice as set out in Subparagraph (b).
 - (c1) A banking corporation as defined in Paragraph 7(2c)(2), is not entitled to engage in investment marketing; however said banking corporation and its employees, which are licensed advisors, are entitled to engage in the marketing of structures, options or futures issued by the same banking corporation, despite the fact that they are not licensed marketing agents. Their activities in this capacity will be subject to the rules of Chapter 3 and Paragraph 25(b1) that apply to licensed marketing agents.
 - (d) No person shall serve as an executive officer of a licensee corporation, which is an associated corporation of a banking corporation if he serves as an executive officer or is an employee in the banking corporation or in

- another associated corporation thereof; for this purpose, “*employee*” – an employee employed at a banking corporation or its associated corporation, including an employee on unpaid leave.
- (e) The Supervisor of Banks may exempt a person from the application of subparagraph (d), in whole or in part, if the equity of the banking corporation to whom the licensed corporation is an associated corporation is lower than the amount prescribed by the Supervisor and promulgated in the *Reshumot*.
 - (f) Rules under Paragraph 2(c) notwithstanding, a corporation licensed to engaged in portfolio management, which is affiliated with a banking corporation, as defined under Paragraph 7(2c)(2), is not entitled to engaged in investment marketing, except as stipulated in Subparagraph(c1);

Cancellation or Suspension of License

[Amended: 5765-2005 "Bahar Act"]

- 10.** (a) The ISA may cancel a license after having given the licensee the opportunity to make submissions to it, if one of the following exists in respect of the licensee:
- (1) the license was granted on the basis of false information;
 - (2) he has ceased to meet one of the conditions upon which the license was granted ;
 - (3) he has breached one of the conditions of the license;
 - (4) a court or the disciplinary committee under this Law have held that the licensee has breached a provision of this Law or of any other law dealing with securities;
 - (5) he has been declared bankrupt, and has not yet been awarded a discharge under Paragraph 62 of the Bankruptcy Ordinance, or legally incompetent, and in a case of a corporation, a temporary liquidation order has been issued against it or a receiver has been appointed , or the corporation has adopted a resolution to voluntary dissolve.
- (a1) The ISA is entitled to revoke a license, after a licensee is given the opportunity to present his case, if the Disciplinary Committee so determines, in response to a complaint submitted by the ISA to it, claiming that under existing circumstances exist the ISA would be entitled to refuse issuance of the license, as stipulated in Paragraphs 7(d)(2) or 8(c)(2);
 - (b) A licensee who has ceased to engage in the activity specified by the license may apply to the ISA in writing asking to have its license cancelled or suspended for such period as the licensee may request.
 - (c) Where an indictment has been filed against a licensee for which he is liable to be convicted of an offense, or where an application has been made to have the licensee declared bankrupt, and if the licensee is a corporation, an application has been filed for the issue of a winding-up order or for an order appointing a receiver, the ISA may, after the licensee

- has been given an opportunity to make submissions to it, suspend his license pending the termination of proceedings.
- (d) A licensee whose license has been suspended may not be entitled to engage in investment advice, investment marketing or portfolio management for the duration of the suspension period.
 - (e) Notice of cancellation or suspension of a license shall be published either by the ISA or by a licensee, in accordance with the ISA instructions.
 - (f) (repealed).
 - (g) A licensee whose license has been revoked but the cause for the revocation has been remedied may request that the ISA renew the license; the provisions of Paragraphs 7 and 8 shall apply, *mutatis mutandis*, to the renewal of the license,.

Chapter 3:

Fiduciary Duties and Duties of Investment Advisors, Investment Marketing Agents and Portfolio Managers

[Amended: 5765-2005 "Bahar Act"]

Fiduciary Duties

- 11.
 - (a) A licensee shall act for the benefit of his clients, with good faith and diligence, may not prefer his own personal interests or those of another to the good of his clients, and may not prefer the interests of one client to those of another client.
 - (b) A client's approval, whether in advance, in writing or orally, whether to a particular transaction or to types of transactions, may not exempt a licensee from his obligations under this Chapter, unless otherwise expressly stated in this Law.

Compatibility of Service to Needs of Client

- 12. A licensee should, as far as possible, render the advice or marketing he provides to his clients, as well as the nature of transactions that he executes for them, compatible with the needs and instructions of each client, after clarifying with the client the purposes of the investment, the client's financial situation including the client's securities and financial assets, and the rest of the requisite circumstances, to the extent that the client has agreed to provide such information.

Agreement in Writing

[Amended: 5758-1998]

[Amended: 5765-2005 "Bahar Act"]

- 13.
 - (a) A licensee shall draft a written contract with the client and shall provide him with a copy thereof, prior to the commencement of provision of the service.

- (b) The contract shall include those matters required for the purpose of the agreement, including the following matters:
- (1) details of identification and data of client;
 - (2) the client's needs and instructions as set out in Paragraph 12;
 - (3) the fees and refund of costs that the client will be charged and the method of calculating these;
 - (4) a statement to the effect that the client may at any time rescind the agreement with the licensee;
 - (5) a statement regarding the possibility (or lack thereof) of providing advice or marketing by telephone;
 - (6) a provision to the effect that the client is aware that the duty of confidentiality imposed upon the licensee is subject to the licensee's obligation to provide information under law;
 - (7) in respect of a licensee that is a member of a Stock Exchange, a provision to the effect that the client is aware that the agreement is subject to the duties of members of a Stock Exchange, in accordance with the bylaws of the Stock Exchange pursuant to the Securities Law;
 - (8) if a licensee is exempt from examinations as set out in Paragraph 48, express reference to this fact.
- (c) A contract between a portfolio manager and his client shall in addition include the following:
- (1) a power of attorney setting out the scope of the powers and discretion granted to the portfolio manager, including a statement as to the method of management of the investment portfolio, be it by way of blind trust or otherwise;
 - (2) the possibility of obtaining credit for the client and the conditions thereof, or the lack of such possibility;
 - (3) provisions regarding classes of securities and financial assets to be included in the investment portfolio, and the proportion of each class in relation to the value of the portfolio, or a provision to the effect that these matters are to be determined by the portfolio manager at his discretion;
 - (4) authority to purchase securities, options or futures contracts at a price higher than the known Stock Exchange price on the date of acquisition, and authority to sell such assets at a price lower than the known Stock Exchange price on the date of sale, or the denying of authority to acquire or to sell in the aforesaid manner.
 - (5) in regard to portfolio managers that are corporations affiliated with an institutional body or marketing agent, and in regard to portfolio managers engaged in investment marketing – the items that must be brought to the client's attention as stipulated in Paragraph 16A(a);

- (c1) An agreement between a marketing agent and a client will include items that must be brought to a client's attention as stipulated in Paragraph 16A (a);
- (d) The details set out in Subparagraph (b)(1) and (2) shall be updated whenever the client notifies a change in them, and a copy of the updating document shall be delivered to the client; where the client does not notify of such a change for a period of one year, the licensee shall initiate the update of the aforesaid details.
- (e) The stipulation of a condition in a contract exempting a licensee from the liability imposed upon him under this Law or under any other law, regarding the manner in which the licensee is to fulfill his function, or limiting the liability of the licensee, shall be void.
- (f) Minister of Finance, in consultation with the ISA and with the approval of the Financial Committee of the Knesset, may determine rules in regard to drafting an agreement between a licensee and a client, its outline and the way it is submitted to a client, as well as in 14 regard to other matters that should be included in the aforesaid agreement, generally or in accordance with a category of agreement, he also may determine categories of agreements that do not have to include a subject from the subjects regulated under Subparagraph (b) or (c).

Fair Disclosure

- 14.** (a) An investment advisor or a marketing agent will disclose to the client, fair disclosure regarding all matters material to the investment advice or investment marketing rendered by the licensee and to a proposed transaction.
- (b) Without detracting from the generality of the provisions of Subparagraph (a), the Minister of Finance may, upon consultation with the ISA, prescribe subjects that will be deemed material to investment advice, marketing or a transaction and set rules regarding the manner of their disclosure.

Conflicts of Interest

- 15.** (a) When a licensee becomes aware of a conflict of interest between himself or the licensed corporation in which he is employed or is a partner, and a client, be it in the general provision of service to the client in question or in respect of a particular transaction, the licensee must notify the client, in writing, of the existence of such conflict of interest, and refrain from any act in which there is a conflict of interest, unless the client has agreed to such in writing in advance, in respect of that transaction.
- (b) Without detracting from the generality of the provisions of Subparagraph (a), the Minister of Finance may, upon consultation with the ISA, prescribe circumstances that will be deemed to be conflicts of interest.

Prohibition of Preference

- 16.** (a) In providing investment advice or managing investment portfolios a

- licensee may not prefer his own securities or financial assets, or those of an associated corporation of the corporation in which he is an employee or partner, due to such relationship.
- (b) A portfolio manager may not order for a client, securities underwritten by the portfolio manager's associated corporation, or by an associated corporation of the corporation in which he is an employee, unless the client agreed to such in advance in writing; the portfolio manager shall report to the client regarding such an order within 30 days of the date of effecting it.
 - (c) A portfolio manager may not acquire for a client securities underwritten by a portfolio manager's associated corporation, or by an associated corporation of the corporation in which he is an employee, until a period of three months has passed from the date of performance of the underwriting obligation, unless the client has agreed to such in writing in advance, in regard to a particular transaction; where a period of more than three months has passed but no more than six months have passed since the date of performance of the underwriting obligation, the portfolio manager is entitled to acquire such securities for a client, if the client has agreed to such in writing in advance; a portfolio manager shall report such an acquisition to the client within 30 days of the date of executing it.
 - (d) An acquisition as set out in Subparagraphs (b) and (c) shall be executed on the Stock Exchange or at a price of no more than the known Stock Exchange price on the date of acquisition.

Fair disclosure, Conflicts of Interests and Bias in Investment Marketing.

- 16A.** (a) Without detracting from the generality of the rules stipulated in Paragraph 14, the following will apply to a marketing agent, portfolio manager which is a corporation affiliated with an institutional body or to a marketing agent and portfolio manager engaged in investment marketing:
- (1) every one of them will notify their clients, everywhere they conducts business and in any place the Chairman of the ISA shall instruct, in a clear and conspicuous sign or by any other means designated by the Chairman of the ISA of the fact that they are engaged in investment marketing and not in investment advice, or of their being a corporation affiliated with an institutional body or marketing agent, as applicable, regarding institutional bodies with which they have an affiliation with their financial assets.
 - (2) Each and every one of them will inform their clients, in a language clear to the latter, both orally and by means of a written document, which will be delivered to the client prior to entering into a agreement with him; and will post on their websites, the stipulations of Subparagraph (1) above, the nature of his affiliation with the financial assets and his bias favoring these assets. The Minister of Finance in consultation with the ISA and with the approval of the Finance Committee of the Knesset, may set rules the level of detail required in the written document and in the

Internet postings prescribed in this Subparagraph, regarding affiliations that constitute benefits, as indicated above in Subparagraph (2), including the type and scope of the benefit as well as the manner in which it is calculated.

- (b) The rules stipulated in Paragraphs 11(a) and 16(a) notwithstanding, marketing agents, portfolio managers that are corporations affiliated with an institutional body or with a marketing agent and portfolio managers engaged in investment marketing, is entitled within the framework of their investment marketing or portfolio management activities, as applicable, to prefer a financial asset with which they are affiliated, over other financial assets similarly suitable to the client and with which they have no affiliation, as long as all disclosure requirements in regard to a client, have been fulfilled, as stipulated Subparagraph (a).
- (c) an affiliations of marketing agents or portfolio managers with a financial asset will not be considered a conflict of interest between them and their client with regard to the stipulations of Paragraph 15;

Prohibition on Incentives

[Amended: 5765-2005]

- 17**
- (a) Licensees, or any other person acting for them or on their behalf, may not receive any benefit, directly or indirectly, in relation to investment advice, investment marketing, or execution or non-execution of a transaction, except for fees and reimbursement of costs from a client as stipulated in the contract per Paragraph 13(b)(3).
 - (b) The stipulations of Subparagraph (a) above will not apply to the following:
 - (1) investment advice, investment marketing, the execution or non-execution of a transaction by licensees in securities issued by them or by persons controlled by them;
 - (2) investment marketing, execution or non-execution of a transaction or by licensees in financial assets with which licensees are affiliated;
 - (3) reimbursement of purchase or sales commissions to a portfolio manager from a stock exchange member, for executing a given transaction or several transactions of which the given transaction is part, providing that the client for whom the transaction was executed gave prior written agreement to receive the aforesaid reimbursement and specified its rate;
 - (4) receipt of distribution commissions from portfolio managers to persons who are not marketing agents, for executing transactions, and only if the client, for whom a transaction was executed, gave prior written agreement to receive the commission and specified its rate, and stated that this distribution commission conforms to rules stipulated in Paragraph 82(b) of the Joint Investment in Trust Law.

- (5) receipt of a commission by an investment advisor that is paid by a management company as stipulated in Paragraph 32(e)(2) of the Regulation of Provident Funds Law, for the execution of a transaction in a professional training fund (*keren hishtalmout*), and only if the client for whom the transaction was executed gave prior written agreement to receive the commission and specified its rate, and that this rate is not contingent on the identity of the management company from which it is received.
- (c) A licensed investment advisor or a licensee that is a banking corporation engaged in investment marketing, may not give any its employees, branch offices, or departments any benefit related to investment advice, investment marketing, the execution or non-execution of a transaction, as applicable, if said benefit takes the identity of the issuing party whose securities are the subject of the advice, marketing or transaction, or the identity of the party affiliated with the financial assets which are the subject of the advice, marketing or transaction into consideration.
- (d) Calculations of fees and reimbursements charged to a client for investment advice will be conducted independent of the issuing party's identity or affiliation with the financial assets for which advice is rendered, and independent of the client's payment to that party.
- (e) In this Paragraph, "a licensee" – includes a person controlling it or controlled by it, as well as an officer in one of these and an employee of one of these.

Prohibition Against Investment Advice and Transactions Pertaining to Certain Financial Assets

17A. Investment advisors, or persons acting on their behalf in this capacity, may not render advice and may not execute transactions in financial assets affiliated with an institutional body that holds ten percent of the means of control in the advisor; for this purpose, "institutional body" – includes a person controlling it or controlled by it.

Limitations on Unconventional Agreements with Investment Advisors

- 17B.**
- (a) Investment advisors may not contract with an institutional body to provide services outside their regular scope of business, that does not conform to market conditions or that may materially affect the investment advisor's earnings, assets or liabilities (in this Paragraph –"unconventional agreement"), without obtaining prior written agreement from the Chairman of the ISA, and if an investment advisor is a banking corporation – from the Supervisor of Banks.
 - (b) The receipt of proceeds by an investment advisor from an institutional body, in accordance with an agreement for the provision of services, which is not an unconventional agreement, or in accordance with an authorized unconventional agreement as stipulated in

Subparagraph(a) above, conforms to the duties of investment advisors stipulated in Paragraphs 11 and 15.

- (c) In this Paragraph "institutional body" and "investment advisor" – including a corporation affiliated with them.

Prohibition Against Investment Advisor Index-linked Notes (ILN's) Issues

17C Despite provisions in law, investment advisors or corporations affiliated with them may not issue Index-linked notes (ILN's).

Special Risks

[Amended: 5765-2005 "Bahar Act"]

- 18.**
- (a) Where a transaction involves a special risk, investment advisors or marketing agents, as applicable, shall inform the client of the nature of that risk.
 - (b) A portfolio manager may not execute a transaction for a client that requires the taking of a special risk unless the client has given his approval in advance in writing that transaction or to transactions requiring the same type of risk.
 - (c) Without derogating from the generality of the provisions of Subparagraphs (a) and (b), the following transactions shall be deemed to be transactions the execution of which involves a special risk:
 - (1) A transaction in a security where the prospectus stated that the investment involves a special risk, as long as a period of less than two years have passed since the date of the prospectus, unless the risk noted as aforesaid no longer exists; 16
 - (2) A transaction involving a short sale as defined in Paragraph 63 of the Joint Investments Law, and the lending of securities for the purpose of the execution of such a transaction;
 - (3) A transaction in a futures contract;
 - (4) Any other transaction prescribed for this purpose by the Minister of Finance, upon consultation with the ISA and with the consent of the Knesset Finance Committee.

Duty of Confidentiality

[Amended: 5765-2005 "Bahar Act"]

- 19.**
- (a) Subject to the provisions of any law or agreement in which the client has expressly waived any duty of confidentiality towards a person noted in such agreement, a licensee shall keep information that the client brings to his knowledge secret, including documents provided to the licensee and the content thereof, as well as any other detail relating to the acts by means of which the licensee engaged in advice and marketing for his client;
 - (b) The provisions of the Protection of Privacy Law, 5741-1981 shall apply to the duty of confidentiality under this Paragraph, even when the party harmed is a corporation.

Duty of Care

[Amended: 5765-2005 "Bahar Act"]

- 20.** A licensee shall act in his occupation with care and with a level of skill that a reasonable licensee would employ in similar circumstances, and shall employ all reasonable means to maintain the interests of his clients.

Prohibition Against Investment Advisor Advertising of Institutional Bodies.

- 20A.** Investment advisors may not advertise in the media, or by means of brochure, mail, e-mail, facsimile, Internet or by any other means, his engagement in investment advice regarding financial assets affiliated with a specific institutional body.

Limitations on the Use of the Word "Advisor" by an Investment Marketing Agent

- 20B.** Investment marketing agents may not use the term "advisor", or any other word derived from it, in the title of his business or in any advertising on their behalf.

Liability of Individual Licensee

- 21.** Activity within a corporate framework may not derogate from the application of the provisions of this Law as to an individual licensee acting on behalf of such a corporation.

Chapter 4: Special Rules for the Manner of Operation of Portfolio Managers

Separate Holding and Management of Client Assets

- 22.** A portfolio manager-
- (1) Shall hold his clients' securities and financial assets separately from his own;
 - (2) Shall hold securities and financial assets of each client separately, shall make decisions regarding execution of a transaction for each client separately and shall maintain separate records of each client's money, securities and financial assets, however a portfolio manager may execute transactions for his clients by way of a concentrated order;
 - (3) Shall manage a monetary account, securities account and financial assets account for a client at a bank or with a member of a Stock Exchange, at a bank outside Israel, or with whoever is entitled in accordance with the law, in the country where he operates, to manage a client's monetary account, securities account and financial assets account;
 - (4) Shall execute transactions for his clients separately from those which he

- executes for his own account;
- (5) Shall credit and debit the clients' accounts on the date of the execution of the transaction.

Prohibition against Using Client's Assets

23. (a) A portfolio manager may not use money, securities or financial assets of a client other than for the purpose of executing transactions for that client and in accordance with the agreement with him and the power of attorney which he received from him.
- (b) A portfolio manager may not execute any transaction with a client and may not obtain a benefit from assets of a client unless the client agreed in advance in writing to that same transaction or benefit.

Fees and Expenses

24. A portfolio manager may not make his fee conditional upon the profit made by the client from a transaction or upon the number of transactions executed for the client.

Chapter 5: Registration and Reporting

Recording of Actions

[Amended: 5765-2005 "Bahar Act"]

25. (a) Portfolio managers shall keep records of every transaction executed for a client.
- (b) Investment advisors shall keep records of all acts of advice given to clients.
- (b1) An investment marketing agent shall keep records of all marketing rendered to clients.
- (c) Subparagraphs (b) and (b1) apply even if advisors' or marketing agent's efforts did not culminate in any transaction.
- (d) Licensee will keep records, as aforesaid in this Paragraph, for the period of seven years.
- (e) Minister of Finance, in consultation with the ISA and with the approval of the Financial Committee of the Knesset, may regulate the details that are to be included in the notes as aforesaid in this Paragraph, as well as the way it should be edited, kept and submitted to a client.

Reporting to the Client

26. (a) A portfolio manager shall provide his client, at least once every three months, with a detailed report of the composition of the client's investment portfolio, of the client's monetary accounts and of any charge incurred for fees and costs, and shall attach details of the transactions executed for the client during the period since the date of the previous

- report, emphasizing transactions involving a special risk and credit transactions, if any.
- (b) Reporting to a client for whom the portfolio manager acts by way of blind trust, shall be in accordance with the format, on the dates and under the conditions set out in the agreement between them; a client as aforesaid may in advance give in writing, in whole or in part, the consents required under this Law.
 - (c) A portfolio manager shall provide his client with additional details at any time, upon demand, whether relating to the status of the client's investment portfolio or monetary account, or relating to a particular transaction, however, the portfolio manager shall be entitled not to do so if he is of the opinion that the client's demand is unreasonable.
 - (c1) investment advisor will notify a client on every change of address within seven days from the day he started to act as an investment advisor at that address.
 - (d) The Minister of Finance, upon consultation with the ISA and with the consent of the Knesset Finance Committee, may issue regulations regarding additional details to be included in reports to a client. 19

Reporting to the ISA

27. (a) A licensee shall file a notice with the ISA once a year regarding the fulfillment of the insurance requirements, and the scope of the insurance and if the licensee is a corporation, the certification of a certified public accountant regarding the fulfillment of the minimum equity requirements under this Law.
- (b) Where the total of the securities held by a licensed corporation that is a portfolio manager, including those included in clients' portfolios, amounts to five or more percent of the issued share capital of a corporation, or where those securities grant five or more percent of the voting power in a corporation, the portfolio manager shall without delay report such holdings to the ISA, the Stock Exchange and the Companies Registrar, and shall report as aforesaid if the above ceases to be the case.
 - (c) A licensee must report to the ISA immediately if any of the conditions upon which the license was granted have ceased to exist or if a condition exists for which the ISA may cancel or suspend the license.
 - (c1) a licensee will report to the ISA his business address and all its updates, within seven days from the day he started to act as an investment advisor at that address.
 - (c2) a licensed corporation and a banking corporation will report to the ISA, without delay, about employment termination of a licensee that was employed by them.
 - (c3) a licensed corporation and a banking corporation will annually submit to the ISA on the 15th day of January, April, July and October, a report that will list the names of all licensees that were employed by them on the last day of a month previous to the report submission, as well as a list of names of licensees that their employ have been terminated after the

- submission date of the previous report in accordance with this Subparagraph; in accordance with this Subparagraph the report will list licensed portfolio manager and licensed investment advisor separately.
- (d) A licensee must report to the ISA as set out in this Paragraph also at the ISA's special request or at the special request of the Chairman of the ISA, and shall report according to such request on any event or matter details of which are important to a reasonable client requiring the services of the licensee.
 - (e) A licensee must provide the ISA, at the request of the ISA or of an employee of the ISA so empowered, with explanations, details, information or documents relating to matters contained in a report or notice under this Paragraph.
 - (f) The ISA may publish reports or notices filed under this Paragraph in two daily newspapers with broad circulation in its opinion, published in Israel in Hebrew.
 - (g) Minister of Finance in consultation with the ISA and with the approval of the Financial Committee of the Knesset, may regulate the editing format, the means and submission dates of reports in accordance with this Paragraph, as well as regulate additional details that are of importance to a reasonable client, that the licensee will report to the ISA in this or other reports in accordance with this Paragraph, all in accordance with the Minister's regulations.
- 27A.**
- (a) a request by a corporation to cancel or suspend its license, in accordance with Paragraph 10(b), and report, notice, information and any other document, that a licensed corporation must submit to the ISA or to the Stock Exchange in accordance with Paragraph 27, will be submitted in accordance with Chapter 1g of the Securities Law.
 - (b) report that has to be submitted, in accordance with Paragraph 27(b), to the ISA and to the Stock Exchange, and that was submitted to the ISA as aforesaid in Subparagraph (a), will be passed on by the ISA to the Stock Exchange, therefore the submission to the ISA will be seen as submission to the Stock Exchange.
- 27B.**
- (a) a report that has been submitted to the ISA in accordance with Paragraph 27(b) will be open for public scrutiny, at the ISA and anyone will be entitled to read it and to get a certified copy of it, from the ISA, or from any other body authorized by the ISA to do so.
 - (b) a certified copy of the document that was submitted to the ISA will be excepted in any judicial process as an original, with the presumption that an original is in the hands of the ISA; this Subparagraph's rules will also apply to an output of a document that was submitted to the ISA in accordance with Paragraph 27A(a); in this case "output" – is as defined in Computer Law – 1995.

Chapter 6: Roles and Powers of the ISA

ISA's Supervision of Licensee

[Amended: 5765-2005 "Bahar Act"]

- 28.** (a) In fulfilling his obligations under this Law, a licensee shall be subject to the supervision of the ISA.
- (b). The ISA is authorized, for purpose of supervision as stipulated in Subparagraph (a) above, to issue rules instructing licensees on good management and operating practices, as well as its corporate officers and its employees, in order to ensure proper management and the preservation of the interests of the licensees' clients; rules can apply to all licensees or to a certain class of licensees.
- (c). (1) Rules issued under Subparagraph (b) do not have to be published in the "Notes", however the ISA, will publish an announcement in the "Notes" about the issuance of these rules and the date they become effective.
(2) Rules issued under Subparagraph (b) and any change in them, will be displayed for public viewing in the offices of the ISA and will also be published on the ISA website. The ISA is entitled to act in any other manner it sees fit to publish this information.

Powers of the ISA

- 29.** For the purposes of this Law, the ISA may employ its powers under Paragraphs 56A, 56B, 56C and 56E of the Securities Law, mutatis mutandis. 21

Chapter 7: Disciplinary Violations and Adjudication

Disciplinary Violations

[Amended: 5765-2005 "Bahar Act"]

- 30.** (a) A licensee who does any one of the following commits a disciplinary offense:
- (1) violates one of the provisions of Paragraphs 7(a)(6) or (c)(5), (8)a)(6) or (b)(1), 11 through to 16 and 18 through to 20a or an obligation given in accordance with Paragraphs 7(c)(1) or (2) and 8(b)(2) or (3);
- (1a) violates any of the ISA's rules stipulated under Paragraph 28(b);
- (2) does an act or omission constituting behavior not appropriate for a licensee.
- (3) employs in portfolio management or investment advise, a person that is not in possession of the license.

- (b) The Minister of Finance shall prescribe, upon consultation with the ISA and with the consent of the Knesset Finance Committee, those matters that constitute behavior not appropriate for a licensee.
- (c) Where a disciplinary offense has been committed by a corporation, the directors and the general manager of the corporation shall also be liable for the offense, and in a partnership, also the partners therein, except for the limited partners, unless they proved one of the following:
 - (1) that the offense was committed without their knowledge and that they ought not to have known or could not have known about it;
 - (2) that they took all reasonable precautions to prevent the offense.

Powers of Investigation

- 31.** (a) Where suspicion arises that a disciplinary offense has been committed as set out in Paragraph 30 (hereinafter: a “disciplinary offense”), whomever the Chairman of the ISA has so empowered in writing may investigate any person who, in his opinion, has information relating to the matter and may demand any such person to appear before him and to provide him with details or information relating to that disciplinary offense.
- (b) Where the ISA finds, after an investigation as aforesaid, that there is *prima facie* evidence of a disciplinary offense, the ISA shall provide the findings of the investigation to the Attorney General.

Disciplinary Committee

[Amended: 5765-2005 "Bahar Act"]

- 32.** (a) The Minister of Justice shall appoint a disciplinary committee comprising three members; the head of the committee shall be a person fit to be appointed as a judge of the District Court, and the other two members shall be members of the public who are not²² employees of the State or employees of the ISA.
- (b) The Disciplinary Committee shall deal with disciplinary offenses as well as with the ISA's petitions to it as stipulated in Paragraph 10 (a1) .

The Prosecutor

- 33.** The Attorney General or a person empowered by him for such purpose may prosecute disciplinary offenses and may appear, make submissions, adduce evidence and examine witnesses at disciplinary proceedings.

Disciplinary Proceedings

- 34.** (a) The disciplinary committee may notify the licensee of details of the disciplinary complaint against him, and shall provide him with an opportunity to answer them.
- (b) The Minister of Justice may prescribe procedures for the disciplinary proceedings; the disciplinary committee shall prescribe its own procedures to the extent that these are not prescribed as aforesaid.

Disciplinary Penalties

[Amended: 5765-2005 "Bahar Act"]

- 35.** (a) The disciplinary committee may impose one or more of the following penalties upon a licensee:
- (1) warning;
 - (2) reprimand;
 - (3) fine in the amount of no more than five times that set out in Paragraph 61(a)(1) of the Penal Law and in regard to a banking corporation – ten times the amount stipulated in this Paragraph;
 - (4) Suspension of license for a period of no more than two years;
 - (5) Cancellation of license for a period of no more than ten years;
- (b) A corporation may not pay a fine imposed upon another person and an employer may not pay a fine imposed upon its employee.

Appeal

- 36.** (a) The parties may appeal a ruling of the disciplinary committee before a District Court within 30 days of the date on which of the decision was brought to their knowledge.
- (b) A single judge of the District Court shall hear the appeal; the judgment of such judge may be appealed to the Supreme Court, if leave for such is given by the Chief Justice of the Supreme Court or by another judge of the Supreme Court at the assignment of the Chief Justice, or if leave has been granted in the body of the judgment.
- (c) The filing of an appeal may not stay the performance of the decision being appealed, including a decision regarding publication, as set out in Paragraph 38, unless otherwise prescribed by the disciplinary committee or by the Court.
- (d) The Minister of Justice may make rules of procedure regarding the procedures upon appeal.

Disciplinary Proceedings and Criminal Proceedings

- 37.** (a) proceedings under this Chapter may not stay or cancel criminal proceedings regarding the same act or omission.
- (b) Where a person has been charged criminally for an act or omission that also gives rise to grounds for a disciplinary proceeding, the disciplinary committee may adjourn its hearing until the handing down of final judgment in the criminal proceeding.

Publication of Decision

- 38.** The disciplinary committee may order the publication of a decision regarding a disciplinary offense, in whole or in part, in such manner as it may see fit; where the committee so orders, the ISA may publish the decision in accordance with such order.

Chapter 7A: Civil Fines

[Amended: 5765-2005 "Bahar Act"]

- 38A.** (a) in this Paragraph "*basic sum*" – a sum as detailed below, as applicable:
- (1) with regard to a banking corporation – NIS 65,000;
 - (2) with regard to a licensed corporation – the product of NIS 3,000 multiplied by the number of the licensees employed by the corporation, by the last reporting date prior to the violation, as stipulated in Paragraph 27(c3), but not to exceed NIS 30,000;
 - (3) in regard to an individual – NIS 3,000;
- (b) if the Chairman of the ISA has reasonable grounds to assume that a licensee or a banking corporation has done one of the following, he may impose a civil fine for a basic sum:
- (1) did not conclude a written agreement with a client prior to providing services or did not send the client a copy of an agreement between them, prior to providing services, contrary to the rules under Paragraph 13(a); did not include in the aforesaid agreement the details stipulated in Paragraph 13(b), (c) or (c1); did not update client's details contrary to the rules under Paragraph 13 (d), or did not draw up an agreement in accordance with Paragraph 13(e);
 - (2) in his capacity as portfolio manager did not report to a client as stipulated in Paragraph 26;
 - (3) in its capacity as investment marketing agent, a portfolio manager that is a affiliated with an institutional body or a marketing agent, or a portfolio manager engaged in investment marketing, did not notify its clients in its place of business by means of a clear sign or by any other means prescribed by the Chairman of the ISA, of its engagement in investment marketing or its affiliation with a institutional body or a marketing agent, or the identity of the institutional bodies with whose financial assets it is affiliated, in violation of the provisions of Paragraph 16A(1), and did not deliver to a client prior to contracting with him a written document specifying the aforesaid and the nature of the affiliation it has with these financial assets as well as its bias favoring these assets, in violation of the provisions of Paragraph 16A(2).
 - (4) did not keep records of his advisory activities, marketing activities or a record of transactions on a client's behalf, did not save such records, in violation of the provisions of Paragraph 25 or Paragraph 25(e).
- (c) if the Chairman has reasonable grounds to assume that a licensee, its corporate officer or its employee, has violated a regulation under Paragraph 28(b), he may impose a civil fine equaling the basic sum.
- (d) if the Chairman has reasonable grounds to assume that an act or oversight in violation of Paragraph 39(b) has taken place, he may impose a civil fine

at the rate of 20% of the fine stipulated in that Paragraph, and in the case of a banking corporation – 50% of the aforesaid fine. If an act or oversight in violation of Paragraph 39(c) has taken place, he may impose a civil fine at the rate of five percent of the fine stipulated under the aforesaid Paragraph, and in case of a corporation – 10% of the aforesaid fine; in case of a banking corporation 50% of the aforesaid fine .

- (e) the Chairman of the ISA will report to an Attorney General, once every six months, on the civil fines imposed under the rules of this Paragraph for offences stipulated in Subparagraphs (4) and (5) and under Paragraph 39(b); the report will be prepared according to the rules set out by the Attorney General.

Updating Civil Fines

- 38B.** (a) the Chairman of the ISA may update the basic sum of the fine on 1 January of each year, according to the change of the index, from the last index published prior to the date of change relative to the last index published prior to the date this law went into effect, he may also round off the sum to a one closest to a multiplication of NIS 10.
- (b) the Chairman of the ISA shall publish an updated basic sum of the fine in the "Notes".

Fixed Sums

- 38C.** The Chairman of the ISA may not impose a civil fine lower than a civil fine stipulated under this chapter.

Continuous and Recurrent Violations

- 38D.** (a) in case of an on-going violation, one fiftieth part of a fine will be added onto the original civil fine for every day of the on-going violation.
- (b) in case of recurrent violations, a sum equal to one half of the original civil fine imposed - as if it has been a first time offence, shall be added onto the fine; for this purpose, "recurrent violation" –violation of the same rule, for which a violator was fined or convicted within a period of two years.

Imposition and Payment of Civil Fines

- 38E.** A civil fine imposed by the Chairman of the ISA, shall be paid within 30 days of its delivery; demand for payment will be issued after the person fined has been notified as to the intent to impose a fine and was given an opportunity to present his case. The notice shall state that in cases of continuous violation, the violator will be fined an additional civil fine, as stipulated in Paragraph 38D above.

Updating Civil Fines

38F. The sum of a civil fine shall be updated on the day it is imposed, and if an appeal was filed and the court considering the appeal instructed a delay in payment – the sum will be updated on the date the ruling on the appeal was made.

Linkage Differentials and Interest

38G. If a civil fine is not paid on time, linkage differentials and interest shall be added for the delinquency period, according to the Interest and Linkage Award Law - 1961, (in this chapter –linkage differentials and interest) until the fine is paid.

Collection

38H Civil fine shall go into the state treasury, and its collection will be subject to the Tax Ordinance (Collection).

Retention of responsibility

- 38I** (a) Payment of a civil fine will not detract from a criminal or responsibility of a person in regard to his violation
- (b) If an indictment or a disciplinary complaint has been issued against a person regarding a violation of this law, a civil fine will not be imposed, and if a fine was paid – the sum will be reimbursed with linkage and interest, from the date of payment to the date of reimbursement.

Publication of fine imposition

38J. If a civil fine is imposed as stipulated in this chapter, the Chairman of the ISA may instruct the person who was charged the fine to notify his clients or to publish an announcement in the press, or by any other means, the imposition of the fine, the offender's name, the nature of the offence and circumstances surrounding it, for which the fine was imposed, as well as the sum of the civil fine.

Appeal

- 38K.** (a) The imposition of a civil fine may be appealed to a district court within 30 days of the delivery date of the imposition of the fine.
- (b) A file for appeal will not delay the payment of a civil fine, unless agreed to by the Chairman of the ISA or so instructed by a court of law.
- (c) Should an appeal be granted - the civil fine will be reimbursed with interest and linkage, from the date of payment to the date of reimbursement.

Chapter 8: Penalties

Violations

[Amended: 5765-2005 "Bahar Act"]

- 39.** (a) A person that committed one of the following, shall be sentenced to imprisonment of two years or a fine equivalent to five times the fine stipulated in Paragraph 61(a)(3) of the Penal Code, and if a corporation – double of the aforesaid fine:
- (1) engaged in investment advice, investment marketing or investment portfolio management, without a license, in violation of Paragraph 2(a) through (1b); or engaged in investment advice, investment marketing or investment portfolio management, during a period in which his license was suspended, in violation of Paragraph 10(d);
 - (2) employed a person not duly licensed to engage in investment marketing, in violation of Paragraph 2(b2);
 - (3) engaged in portfolio management in violation of Paragraph 9(a);
 - (4) engaged in investment advice, in violation of Paragraph 9(a), or employed a person not duly licensed to engage in investment advice in violation of the aforesaid paragraph;
 - (5) engaged in investment marketing or employed others in investment marketing in violation of Paragraph 9(c1);
 - (6) engaged in investment marketing in violation of Paragraph 9(f).
- (b) A person that committed one of the following shall be sentenced to – imprisonment of one year or a fine equivalent to five times the fine set out in Paragraph 61(a)(2) of the Penal Code, and if a corporation – double of the aforesaid fine:
- (1) held or acquired securities for himself in violation of Paragraph 4(a);
 - (2) managed investment portfolios for a family member or for a corporation in which he or a family member are controlling shareholders, in violation of Paragraph 4(b);
 - (3) served as an officer of a licensed corporation in violation of Paragraph 9(d);
 - (4) received a benefit for investment advice, investment marketing, execution or non-execution of a transaction or for avoidance of a transaction in violation of Paragraph 17(a);
 - (5) bestowed a benefit, directly or indirectly, on an employee, branch office or department, regarding investment advice, investment marketing, or execution or non-execution of a transaction in violation of Paragraph 17(a);
 - (6) set fees and the reimbursement of costs charged to clients in violation of Paragraph 17(d);
 - (7) rendered advice or executed a transaction for a financial asset affiliated with an institutional body that is a principal shareholder of the advisor or his employer, in violation of Paragraph 17A.

- (8) signed an unconventional agreement with a institutional body, without obtaining authorization, in violation of Paragraph 17B(a);
 - (9) issued ILN-s in violation of Paragraph 17C;
 - (10) made use of the word "advisor" or a derivative of this word, in the title of his business or in advertising, in violation of Paragraph 20B;
- (c) A person who commits an offense under the provisions of Paragraph 27 shall be liable to a fine of six times the fine set out in Paragraph 61(a)(1) of the Penal Code, and if a corporation – double the aforesaid fine; in the case of a continuing offense, the Court may impose an additional fine - at the rate of one-fiftieth of the fine that the Court may impose - for each day on which the offense continues.
- (d) *(Repealed)*.

Liability of Director of Corporation

40. Where an offense as set out in Paragraph 39 has been committed by a corporation, the directors and general manager of the corporation shall also be liable for the offense, and in a partnership, also the partners therein, except for limited partners, unless they proved that the provisions of Paragraph 30(c)(1) or (2) have been met by them.

Chapter 9: Miscellaneous Provisions

Fees

- 41.
- (a) The Minister of Finance, upon consultation with the ISA and with the consent of the Knesset Finance Committee, may set fees that licensee applicants and licensees must pay the ISA.
 - (b) if a licensee does not pay a fee, in accordance with Subparagraph (a), within a year from the date fixed for the payment in the aforesaid Subparagraph, his license will be suspended from the date fixed in a warning note issued to him by the ISA, till he pays the fee with interest and linkage, in accordance with this Subparagraph, and will immediately notify his clients in writing.
 - (c) renewal of license that was annulled or suspended, in accordance with this law, will be subject to payment of dept by the licensee for non-payment or for non-payment of interest charges that he is obligated to pay in accordance with Subparagraph (a).

Performance and Regulations

42. The Minister of Finance shall be responsible for the execution of this Law and he may issue regulations in respect to any matter relating to its execution, at the suggestion of the ISA or upon consultation with it; 25 rules under this Paragraph shall be made with the consent of the Knesset Finance Committee.
43. (Amendment of Banking Law (Licensing) Law, 5741-1981)¹.

¹ The amendment was integrated into the body of the law and no longer appears here.

- 44. (Amendment of Banking (Client Service) Law, 5741-1981)¹.
- 45. (Amendment of Banking Ordinance, 1941)¹.
- 46. (Amendment of Joint Investment Trust Law 5754-1994)¹.

Commencement and Transitional Provisions for Particular Paragraphs

(Amended: 5756, 5757-1996, 1997)

- 47. (a) Paragraphs 2 through 8, 10, 39 and 40 shall commence on 26 Sivan 5757 (July 1, 1997).
- (b) Paragraphs 13, 16(b) and (c), 17, 18 and 26, to the extent that they relate to persons who were clients of an investment advisor or portfolio manager immediately prior to the promulgation of this Law, shall commence at the end of six months from the date of publication.
- (c) For the purposes of Subparagraphs (a) and (b), an individual or a corporation who are engaged in investment advice or portfolio management on the date of promulgation of this Law and until 25 Sivan 5757 (June 30, 1997), shall be deemed to be a licensee under this Law.

Transitional Provisions

(Amended: 5758-1998)

[Amended: 5765-2005 "Bahar Act"]

- 48. (a) In this Paragraph:
 - “**Examinations**” –examinations set out in Paragraphs 7 and 8 of this Law;
 - “**Determining period**” – the period commencing on 2 Elul 5754 (August, 9, 1994) and terminating on 25 Sivan 5757 (June 30, 1997).
- (b) For the purpose of receiving a portfolio management license, a person who engaged in portfolio management in Israel continuously during the determining period shall be exempt from examinations, with the exception of the examination in professional ethics.
- (c) For the purpose of receiving an investment advice license, a person who engages in giving investment advice or in portfolio management in Israel continuously during the determining period shall be exempt from examinations, with the exception of the examination in professional ethics.
- (c1) The stipulations of Subparagraphs (b) and (c) will apply to applicants requesting exemptions from the examinations stipulated in these subparagraphs, until 3 Shvat 5766 (1 February 2006).
- (d) A person who, on 6 Tammuz 5758 (June 30, 1998) is engaged in giving investment advice or in portfolio management, as the case may be, under a temporary license, shall be exempt from examinations, with the exception of an examination in professional ethics, until 22 Tevet 5760 (December 31, 1999).
- (e) (*Repealed*)

Publication in the Official Gazette

- 49. This law will be published within 30 days of its enactment.