

March 30, 2022

Circular to Fund Managers and Trustees
Regarding Disclosure of Exposure to Bonds of Companies with No Affiliation to Israel

Att:

Fund Managers and Fund Trustees

by email to the email address registered in the MAGNA system

Dear Fund Managers and Fund Trustees,

General

On November 7, 2021, the ISA published an amendment to the Fund Managers Directive on “Disclosure by a fund of potential exposure to non-investment-grade bonds and to banking corporations holding the fund’s cash and deposits” (the “Exclamation Point Directive” and “the Amendment to the Directive,” respectively). According to the Amendment to the Directive, a fund whose exposure to bonds of companies with no affiliation to Israel, together with the additional elements of heightened risk defined in the Directive, is greater than its maximum exposure rate to shares must add an exclamation point (“!”) to its name, unless said bonds have a rating of at least AA or an equivalent rating.¹

A “company with no affiliation to Israel” is defined in the Amendment as “a company for which all the following obtain: its bonds are listed for trade in Israel; its place of incorporation is outside Israel; the management of its business is performed outside Israel, and; its shares were not offered to the public in Israel; For this purpose, a company whose general director or acting chairperson is an Israeli resident and the majority of its directors are Israeli residents shall be deemed a company the management of whose business is performed in Israel.”

The effective date of the Amendment was set to be six months from the date of its publication (“the General Effective Date”) and with respect to companies whose bonds were held by

¹ For the text of the amended Directive, see [LINK](#).

investors in Israel prior to the publication of the Directive – three years from the date of its publication (“the Late Effective Date”).

This Circular addresses how fund managers should adjustment disclosures to the Amendment to the Directive.

Mandatory disclosure

For the purpose of this Circular, mutual funds are divided into three categories: funds that had an exclamation point in their name prior to the effective date of the Amendment (“Exclamation Point Funds”), funds that will be required to add an exclamation point to their name as a result of the Amendment (“Future Exclamation Point Funds”), and funds that do not belong to either of these two categories (“Other Funds”).

We stress that when a disclosure requirement applies, and to comply with this requirement a fund manager also refers to bonds of Companies with No Affiliation to Israel, the body of the report shall include the definition of the term “Companies with No Affiliation to Israel” as it appears in the Amendment to the Directive; Reference alone to the Amendment is not sufficient. In contrast, the mandatory disclosure does not apply to marketing publications, and the manner of such publications is subject to the discretion of the fund manager and trustee.

Exclamation Point Funds

For the purpose of the disclosure requirements, a fund whose name included an exclamation point before the Amendment to the Directive entered into force shall be considered a fund that, according to its investment policy, is not restricted from creating exposure to bonds of Companies with No Affiliation. Accordingly, the fund manager must address the meaning of the exclamation point and whether the fund’s investment policy includes investment in bonds of Companies with No Affiliation. Such disclosure shall be made in Form Kuf-050 “Report of Change in Investment Policy,” although a fund manager may use Summary Form Kuf-123 “Report of Event in a Mutual Fund” to report on all the Exclamation Point Funds under its management.

Relevant fund agreements shall be amended no later than the first filing date of the annual report after said disclosure or the date of the first change in the fund’s agreement after said disclosure the earlier of the two dates

With respect to publication in the press, a single advertisement that contains a reference to several reports may be used.

Future Exclamation Point Funds

A fund that is obligated to add an exclamation point to its name following the Amendment to the Directive shall report the change of the fund’s name and its investment policy using Form Kuf-49. Furthermore, if this change requires a change in the heading on the basis of which the fund is classified, the fund manager shall also report this change using Form Kuf-062.

מחלקת השקעות

ISA Staff will not deem such a filing to be a material change in the fund's policy, with all the implications of such determination, or an extreme material change in the fund's policy, provided that the fund manager assumed a commitment to make no change to the fund's policy with respect to non-investment grade bonds and banking corporations in the second credit risk category. This is the case because the addition of an exclamation point is made due to a regulatory change. In such event, when filing Form Kuf-049, the fund manager must not check the first two boxes regarding a change in the fund's classification for the purpose of publications and changes in volatility.

If a change to the heading is required, in section 6 of Form Kuf-062 the fund manager must select "No material change in policy occurred."

Relevant fund agreements shall be amended no later than the first filing date of the annual report after said disclosure or the date of the first change in the fund's agreement after said disclosure the earlier of the two dates

With respect to publication in the press, a single advertisement that contains a reference to several reports may be used.

However, if the fund manager does not assume a commitment to refrain from creating such exposure, this shall be deemed a material change in policy, including all the implications of such determination, and the fund manager is required to file a report on the change in the fund's name and investment policy, and a report on the change in the fund's heading, if relevant.

Other Funds

A fund whose name does not include an exclamation point, and are not obligated to add an exclamation point to its name following the Amendment to the Directive, is not obligated to file an immediate report and shall be deemed as a fund whose investment policy includes a commitment to refrain from creating exposure to bonds of Companies with No Affiliation that (together with the additional risk components defined in the Directive) is greater than its potential exposure to shares. The fund manager must address this point within the fund's investment policy in the fund's annual report or in a report filed on a change in the fund's investment policy, if such a change occurred before the filing date of the annual report.

Filing Date

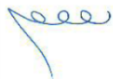
With respect to an investment in bonds of Companies with No Affiliation whose bonds were not held by the public in Israel on the publication date of the Directive (if relevant)² — the fund manager must report such investment in the manner stated in this Circular no later than the General Effective Date of the Amendment to the Directive.

² In Exclamation Point Funds, the filing is relevant in any case because it implies that the fund manager **may** invest in bonds of Companies with No Affiliation that were not held by the public in Israel on the publication date of the Directive. In Future Exclamation point Funds, the filing is relevant only if the addition of an exclamation point to the fund's name is required on the General Commencement Date.

In all other cases, a report must be filed no later than the Late Effective Date of the Amendment to the Directive.

Sincerely,

Yafit Tzurel



Mutual Fund Supervision Unit