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Proposed Amendment on Regulation of iXBRL Reporting

Format for Public comments

Comments and responses will be accepted until February 9, 2022

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For the procedure published by the ISA on initiating regulation, please see https://www.isa.gov.il/Download/IsaFile_7067.pdf. According to this procedure, the main comments from the public will be presented in a document that summarizes the final version of the regulation and includes the names of the public commenters. Also see Section 7 of the above procedure on special requests to refrain from publishing commenters' names.

Background

iXBRL is an international reporting standard for creating documents that can be read both by human readers and by machines. Reporting in iXBRL makes it possible to access much more information that is currently contained in financial statements. In an iXBRL statement, tagged information can be retrieved easily, with no manual data entry necessary. Reporting corporations must attach their financial statements in PDF file format. The ISA proposes to impose on reporting corporations a requirement to file their financial statements in iXBRL.

Reporting in iXBRL has numerous benefits, in addition to creating structured information using a standard language. For example, users of business information including investors, regulators, and the corporations themselves, can easily and efficiently retrieve the financial data in financial statements to compare the performance of reporting corporations across segments and time.

Reporting in iXBRL also eliminates language barriers, allowing all readers of the periodic reports, including readers who are not Hebrew speakers, to understand the contents of the quantitative data presented in the reports. Even with respect to the narrative text sections of these reports, which are proposed to be marked up as a single block of text, their structured organization will facilitate readers' navigation and application of translation software and NLP/text analytics tools. Reporting in iXBRL

is expected to support the activities of foreign investors and issuers in Israel's capital market, and increase their participation rate. Introducing iXBRL reporting will also help position the Israeli capital market in the international arena on par with major global markets.

The transition to iXBRL has been a gradual process. In October 2019, the Israel Securities Authority ("ISA") published a call for public comments in iXBRL reporting, which included a policy proposal to require period reports to be filed in a structured manner, which included tagging specific chapters of these reports at various degrees of detail. A non-public pilot test has been conducted on 7 reporting corporations that drafted structured financial statements for the ISA.¹ These companies used products developed by three suppliers selected by the ISA, using iXBRL, which is the reporting standard in developed markets and especially in Europe and the US.

Concurrently with the publication of this document for public comments, ISA Staff also published a call to reporting corporations to voluntarily file their reports in iXBRL. At this stage the corporations that elect to do so will have an opportunity to make trail use of and gain experience with this format. As the related legislative process advances, and as the ISA and market actors gain experience, filing in iXBRL will become a mandatory requirement. Therefore the ISA has published this document for public comments, providing explanations and details of the proposed legislative amendment that is necessary to support this new reporting format.

ISA Staff also proposes several additional amendments related to electronic filing that are warranted in view of developments in recent years.

The proposed amendment:

1. Regulation 12 of the Securities Regulations (Electronic Signature and Reporting 5763-2003 ("the E-Reporting Regulations")) provides that a document attached to a filing form will be prepared as a PDF file. When iXBRL is adopted, a PDF file is no longer necessary and therefore it is proposed to delete the words "in the textual PDF format (Portable Document Format)". Today, numerous technological tools are available, and the proposed amendment is technologically neutral and sufficiently flexible to support future technological developments. This amendment will eliminate the restriction on filing in iXBRL. Filing in iXBRL will be regulated in the rules for registration, signature, reporting, and distribution through MAGNA, published by the ISA under the Securities Law 5728-1962 ("MAGNA Rules")². These rules will be developed at a more advanced stage of the legislative process on the basis of insights and conclusions drawn from the voluntary adoption stage, and will comply with the ISA's legislation initiation procedure.
2. Additional proposed amendments to the E-Reporting Regulations:

¹ The reporting corporations concurrently filed their periodic reports to the public in PDF format as required by law.

² Section 44E of the Securities Law grants the ISA powers to make rules on various matters including the manner of electronic filing and the software to be used to file electronically.

The following amendments to the E-Reporting Regulations are also proposed on this occasion:

- 2.1. Filing by an authorized digital signatory – The Regulations currently provide that the individual whose signature is required on a document filed with the ISA is required to authorize a single digital signatory for the reporting entity, who will sign on behalf of all the individuals whose signature is necessary. The proposed amendment will incorporate ISA Staff position in Regulation 2 of the E-Reporting Regulations, that the digital signatory’s name and position in the corporation must be explicitly stated in each filing, in addition to their signature.³
- 2.2. Inclusion of hyperlinks – Regulation 11 of the E-Reporting regulations defines a general prohibition on including hyperlinks in filings, which is based on information security concerns or concerns related to information credibility and availability. It is proposed to limit said prohibition and permit the inclusion of hyperlinks to the reporting corporation’s own previous filings on MAGNA, and to permit the inclusion of hyperlinks to the same document, which eliminates said concerns.
- 2.3. Inclusion of images – Regulation 12(c) of the E-Reporting Regulations defines a prohibition on including hyperlinks in filings, which is based on the MAGNA’s traffic limitations and the concern that the inclusion of images will increase the volume of a filing and prevent filings from being efficiently sent and opened on the distribution site. Today, however, recent developments in internet systems and infrastructure eliminate such concerns, and the inclusion of images can be permitted without adverse effects. However, if it is necessary to limit filing size or volume, such limits may be defined in MAGNA Rules.
- 2.4. Regulation 21(d)(2) of the E-Reporting Regulations defines a period in which a digital signatory may request a digital signature from an authorized signature verification office. ISA Staff has received letters from electronic signatories in increasing numbers since the COVID-19 pandemic, commenting that the period defined in the Regulations is insufficient. It is therefore proposed to extend this period to 30 days, in lieu of the period of 14 days that is now defined in the Regulations. It is therefore proposed to extend this period to 30 days, in lieu of the period of 14 days that is now defined in the Regulations.

Following is an integrated version of the proposed amendments:

³ Following ISA Staff Bulletin dated March 12, 2012 (https://www.isa.gov.il/Download/IsaFile_6588.pdf), the filing forms were revised to include fields for the names of the entities that sign the filing: https://www.isa.gov.il/%D7%92%D7%95%D7%A4%D7%99%D7%9D%20%D7%9E%D7%A4%D7%95%D7%A7%D7%97%D7%99%D7%9D/Corporations/Hodaot_segal/Electronic_Systems/Documents/VERSION101.pdf

Proposed Amendment to Securities Regulations (Electronic Signature and Reporting 5763-2003)

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- 2(a). A person whose signature is required on a document filed with the ISA shall authorize an authorized digital signatory of the reporting entity to sign on their behalf and to report electronically to the ISA, by attaching the approved digital signature of the authorized digital signatory; If the signature of more than one person is required on that document, each person whose signature is required shall authorize, with the aforesaid authorization, a single authorized digital signatory of the reporting entity; Such authorization shall be signed manually by each person whose signature on the document is required by law, including their name and position in the reporting entity or any other connection that they have to the reporting entity, and such authorization shall be attached by, and constitute an integral part thereof, the text of the document with regard to which the authorization was given.
- 2(b). If an authorized digital signatory is required by law to sign personally on the document as the sole signatory on behalf of the reporting entity, they shall sign the document by attaching their authorized digital signature and shall report electronically to the ISA.

2(b). The filing will bear the names of the persons who signed the document and their positions in the corporation.

...

11. A document that is filed electronically with the ISA will contain no external hyperlinks, to information in or outside the document, however a reporting entity may include a hyperlink in a document for the purpose of reference from the table of contents, if one exists, to relevant sections of the document, or for the purpose of reference, if its exists, in the text of the document to relevant sections in the document, with the exception of hyperlinks to other filings of the corporation on MAGNA, or if the ISA determined otherwise in rules issued under Section 44E.
- 12(a). A document that is attached to a filing form as a file will be prepared using software that is adapted to use on MAGNA, in accordance with rules to be issued by the ISA under Section 44E. that is used to create files in textual portable document format (PDF) that are searchable in the language in which the document was written.
- 12(b). Notwithstanding sub-regulation (a), a document prepared by an source that is external to the reporting entity, and over whose drafting the reporting entity has no control of influence, may be attached to the reporting form in non-textual PDF (image) format.

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12(c). A document that is filed electronically with the ISA will contain no video files, audio files, or animation files, ~~and will not contain images with the exception of graphs, tables, the logo or symbol of the reporting entity unless the ISA determined otherwise in rules issued under Section 44E.~~

...

20. ...

20(b). If the ISA approved the application for registration as stated in sub-regulation (a), the person who is designated to serve as an authorized digital signatory will appear at the signature approver office, with a valid authorization of the ISA, identify themselves before the signature verification office and purchase a means of signature and digital certificate for the purpose of electronic filing; The ISA authorization that is used to request a means of signature and an electronic certificate from the signature approver office will remain in effect for ~~1430~~ days from the authorization date.