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Key Points for Reporting Corporations on the Disclosure of the Implications of the Swords of Iron War

Background

Since a state of war was declared on October 7, 2023, Israel has been involved in the Swords of Iron War (“the War” or “the State of War”). The events of the War led to a decline in activity in the economy, caused a slowdown in economic activities, and have a considerable impact on multiple aspects of the business operations of many reporting corporations. The State of War also affects the operations of numerous companies that rely on foreign employees or employees who have been recruited for the War efforts, companies whose business is international trade, companies that are foreign corporations operating in Israel, airlines, and others. As a result, the War has significant implications for the economy, and these challenge the business operations and business continuity of the reporting corporations in the capital market.

The staff of the Israel Securities Authority (“ISA Staff” and “ISA,” respectively) is monitoring the effects of the War on the reporting corporations in Israel and their implications for investors in Israel’s capital market. Several dozen reporting corporations operating in a range of sectors have already issued immediate reports about the implications of the State of War on their business operations. Some of these reports included quantitative estimates of the anticipated effects on the results of their business activities in the near future.

The State of War, and especially its continuation, may affect diverse reporting companies and various business sectors that are directly or indirectly affected by the War, and poses significant challenges to a considerable share of the corporations active in the capital market.

To help the reporting corporations most effectively address the various challenges they face, the ISA immediately took steps to promote a series of reliefs to cope with potential operational difficulties regarding compliance with regulatory deadlines. The ISA promoted several reliefs including an extension to the deadline for publishing Q3/2023 reports and an extension to shelf prospectuses. A bill that will defer the expiry date of certain approvals required by the Companies Law is scheduled for a Knesset hearing in the next few days. These reliefs will help the corporations focus their resources on the tasks and challenge that they face in these irregular circumstances.

At the same time, the ISA recently received several requests from capital market actors and reporting corporation representatives to clarify the nature and scope of disclosure required regarding the effects of the War, which they are required to

include in their financial statements for Q3/2023. The ISA also received requests for guidelines that clarify the required disclosure in the Q3/2023 reports, mainly to meet the need for regulatory certainty with respect to the scope and nature of the information on the implications of the War that the corporations are required to provide to investors in their interim financial statements.

Due disclosure is a fundamental principle of securities law. Trading in the securities of reporting corporations is based, first and foremost, on information that these corporations publish, which investors use to make informed investment decisions. The corporations' immediate and interim reports are designed to allow investors to understand the state of a corporation and the costs and benefits of investing in it, both in times of routine, and *a fortiori* in times of crisis such as the current situation, characterized by inherent uncertainty.

ISA Staff believes that although the capital market has extensive experience with events of similar impact (such as the Covid-19 pandemic), it is necessary to issue guidelines and highlight key points regarding the disclosures expected of the corporations that will publish immediate reports and Q3/2023 financial statements, in order to ensure that the high standard of due disclosure required by law is met, and to ensure the fair operations of the capital market and the continued fair operations of the capital market and trading on the Tel Aviv Stock Exchange. The purpose of such guidelines is to direct the reporting corporations' attention to those issues on which they are required to provide to investors useful, accurate, and up-to-date information about the implications of the State of War, while upholding a high standard of disclosure.

Accordingly, ISA Staff is publishing several guidelines and key points on the disclosure that is required when issuing immediate reports and preparing Q3/2023 financial statements.

Key Points on Disclosures in Immediate Reports

With respect to publishing reports on the War's impact on the business operations of reporting corporations, corporations whose business operations are or may be materially affected by the War must verify that due disclosure is made to investors by issuing an immediate report on the implications of the War for their business operations according to the provisions of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports) 5730-1970 ("the Reporting Regulations") and also **provide continuous and ongoing updates on material developments related to these implications**. Regulation 36 of the Reporting Regulations defines a requirement to issue an immediate report on any event that deviates from the corporation's business and has or may have a material impact on the corporation, and on any event or matter that could significantly affect the price of the corporation's securities. Within such a report, the corporation must carefully ensure that investors are given informative, up-to-date information that combines **quantitative** information and **qualitative** information on the main implications of the events of the War on its business operations, and the extent of the effect on the corporation's operating continuity and financial position.

Following is a non-exhaustive list of examples of effects that the corporation should examine, in order to meet its reporting requirements:

- Significant impairment of assets;
- Significant stoppage or closure of offices/operating sites;
- Significant reduction in business operations or the roster of employees;
- Significant decline in the scope of sales, activities, orders, or market demand;
- Significant damage or difficulties in the supply chain/the marketing and distribution system/access to raw materials, and inventory/customers/suppliers;
- Significant harm to operational and functional continuity;
- Cash flow problems, liquidity stress, and reportable credit events;¹
- Significant cyber-security events;²
- Significant credit losses with respect to customers.

ISA Staff clarifies that although not all events in a corporation's life warrant disclosure to investors, corporations must examine if an isolated event or a series of events taken together constitute a "significant event" that meets the minimum criterion of materiality and establishes a reporting requirement according to Regulation 36 of the Reporting Regulations, and if so – to report it.

Key Points Related to Q3/2023 Reports

With respect to the publication of the financial statements for Q3/2023, following are several key points related to the disclosure that corporations are required to make regarding any business operations that are or may be **significantly** affected by the State of War, and inclusion of this information in their interim report should be considered:

1. General analysis of the effect of the events of the War on the corporation's ongoing business activities

In the directors' report - qualitative and quantitative analysis of the events of War that have a significant effect on the corporation's financial position, assets (e.g., trade accounts receivable; inventory; property, plant and equipment), results of operations; ability to maintain operational and function continuity; roster of employees; state of the business vis a vis customers, suppliers or service providers; analysis of the main operating and financial metrics used to assess performance in the corporation's sector; effects on sources of financing and refinancing options; risks stemming from the State of War; and the plans and actions that the corporation took or intends to take in order to deal with these implications. An analysis should be performed for each of the corporation's operating segments.

2. Sector-based analysis of the effects of the events of the War on the corporation's businesses (Revision to the Chapter on the Description of the Corporation's Business included in the Periodic

¹ See ISA Legal Position 104-15: Reportable Credit Events. [LINK](#).

² See ISA Legal Position 105-33: Cyber-Security Disclosure. [LINK](#).

Report for the Year 2022 and the interim financial statements for the year 2023)

Quantitative and qualitative information regarding the events of War that have a significant effect on the corporation's operations according to the sector in which the corporation operates. The information must include explanations for the emerging and anticipated trends, according to the corporation assessments that take into consideration the specific circumstances of the corporation and the sector in which it operates, **for the reporting period and for the period from the reporting date to the publication date of the reports.** The corporation must also include information on the plans and actions that the corporation took or intends to take to address these implications.

Following are several examples of disclosures whose inclusion should be considered by corporations in specific sectors, and examples of up-to-date information **that should be disclosed up to shortly before the publication date of the report** (if it has a significant effect on the corporation).

ISA Staff clarifies that these are examples solely for the sake of illustration and should not be used to make inferences regarding other events or sectors.

A. The hotel sector – The status of hotel operations (which hotels are open and which are not in operation), occupancy rates (separate disclosure for occupancy rates of residents from the north and south of Israel), state incentives to which the hotel is eligible in respect of hosting residents from the north and south of Israel, roster of employees (this term here and below includes a disclosure on the percentage of employees on non-paid vacation), and effects on revenues, profitability and cost structure (fixed and variable costs).

B. Real estate development sector – Pace of project construction and completion dates (percentage of completion and delays in delivery of apartments), information on closed project sites or sites experiencing operating difficulties due to lack of access to labor, pace of marketing and sales of apartments, signed contracts and the sale prices per sqm on the basis of these contracts, costs, gross income, anticipated capital reserves, effect on capital reserves withdrawal date, and any deviations in the gross income calculated in the corporation's report from the data provided to the financier. Regarding inventory of land – a disclosure on impairment and the key assumptions underlying assessments of impairment. Furthermore, information on the effects and changes in construction loans and nonbank credit (terms of the loans, liens, and compliance with financial covenants and other financial conditions).

C. Building and infrastructure construction sector – Pace of project construction and completion dates (rate of completion), information on closed project sites or sites experiencing operating difficulties due to lack of access to labor, changes in estimated project revenues, costs, and gross income.

D. Rental properties sector – Percentage of commercial/office/logistics/other areas that are closed, the duration of closure and expectations regarding prolongation of the closure, analysis of conventional metrics of performance and effects on the corporation's results of operations (e.g., revenue and NOI), percentage of rent collection, rent concessions requested by tenants and rent concessions (and other

relief) granted by the corporation, analysis of variable costs vs. fixed costs, and an analysis of the corporation's fixed costs with respect to properties in which business activities have been suspended.

E. Aviation sector – The roster of operating/non-operating planes, roster of active employees, routes operated by the corporation and the routes that are not being covered, occupancy rate (ASK and PLF), effect on revenues, profitability, key operational and financial performance measures, cost structure (fixed and variable costs), outstanding credit from lenders and plane lessors, and plans for new acquisitions. The information should be provided separately for passenger and cargo operations, as far as possible.

F. Tourism sector – Suspended operations (travel agencies, activity sites, distribution channels, guided tours, land services, etc.), roster of active employees, effect on local and international agreements, both wholesale and retail, and effects on revenue, profitability, and cost structure (fixed and variable costs).

G. Retail fashion and apparel sector – List of active stores, roster of active employees, the corporation's sources of income (e.g., analysis of online revenues in comparison to total revenues, analysis of trends, and estimated effects of the War), changes in turnover and same store sales (SSS), effect on profitability, does the corporation meet its rental payments according to its rental contracts, incentives and concessions granted (if any), analysis of fixed vs. variable costs.

H. Leasing sector – Effect on the scope of business operations by type of activity (operating leases/vehicle rentals/consumer credit), effect on revenues by type of client, effect on future revenues by type of activity based on signed contracts, effect on profitability, effect on the average number of vehicles under operating leases and short-term rentals, the corporation's assessments of other future effects, such as effects on new contracts and cancellation of existing orders.

I. Industrial sector – Factories, activities, and sites whose operations have been suspended, damage to property, roster of active employees, availability of raw materials and inventories, production capacity and actual capacity utilization, effect on revenues and profitability (separately for domestic market and exports), supply chain, and changes in cost structure (fixed and variable costs).

J. Gas and oil sector – Similar to the industrial sector, a disclosure on activities and sites that have been suspended, roster of active employees, production capacity and actual capacity utilization, effect on revenues and profitability (separately for domestic market and exports), supply chain, and changes in cost structure (fixed and variable costs).

K. Hi-tech sector – Changes in burn rate, roster of active employees, stop in capital investments, delay in completing capital raising rounds, delay in completing technological developments and R&D activities, delay in product marketing and distribution efforts, credit needs.

L. Nonbank financial sector – Customer aging report, including outstanding debts with modified maturity dates; table of average duration, distinguishing between outstanding debts, debts in arrears, and debts with modified maturity dates; quantitative and qualitative disclosure of customers affected by the War, including scope of extensions granted to customers as a result of the War or adjustments made

to collateral. Effects on and modifications made to construction loans and nonbank credit (terms of loans, liens, compliance with financial covenants, and other financial conditions).

M. Investment houses – composition of managed assets.

ISA Staff clarifies that this is not an exhaustive list of all the sectors that have been or may be affected by the events of the War, and is presented solely to illustrate disclosures required to present to investors a clear picture of the effects of the War on the business operations of corporations operating in those sectors. Each corporation must adjust the scope of its disclosure to its specific circumstances.

3. Analysis of financing and financial position

A. Disclosure of the financing and financial position in the directors' report

- The directors' explanations for the War's estimated effects on the corporation's financial position, liquidity, financial strength, available sources of financing, and solvency, should also include a qualitative and quantitative disclosure that allows investors to perform a comprehensive analysis of these implications and of the corporation's assessment. This disclosure should provide information on the key assumptions, discretion exercised, and various scenarios considered, which were used as the basis for the corporation's assessments of its solvency. The disclosure should be extended if the corporation's assessment of its solvency is sensitive to specific assumptions (e.g., assumptions related to the prolongation of the War, the rate of recovery from the War), and include sensitivity analyses, additional scenarios, etc.
- The corporation will include up-to-date information on the actions and plans that the corporation took or intends to take to increase the availability of liquid resources and sources of financing. The disclosure will include reference to the corporation's ability to raise equity and debt using the banking and nonbanking systems; its financial flexibility, list of unencumbered assets, approved and unutilized credit facilities and outstanding lines of credit.
- The corporation will make reference to any significant modifications made to financing agreements.
- The corporation will make reference to its compliance with financial covenants, or failure to comply with financial covenants and the implications thereof, anticipated non-compliance with financial covenants (if the corporation can estimate with a high degree of certainty that non-compliance with financial covenants is anticipated), and the corporation's plans for addressing this.
- The corporation will make reference to any arrears in payments (e.g., lease payments, rental payments, interest payments) and their implications, and the corporation's plans for addressing them.
- The corporation will make reference to significant changes in its burn rate (especially if there is a significant decline in its business operations).

B. Cash flow projection

- Regulation 10(B)(14) and Regulation 48(C)(13) of the Reporting Regulations state that a disclosure on projected cash flows must be attached to an interim report if the warning signs defined in the Regulations exist. ISA Staff wishes to stress that, according to the Regulations, a corporation must present detailed information on the assumptions underlying the attached cash flow projection. For this purpose, the corporation will implement the key points listed in this position paper above regarding disclosure of the corporation's assumptions, assessments, and plans with respect to the implications of the War, respectively. The corporation will also include sensitivity analyses of market-dependent variables, and sensitivity analyses of additional variables if necessary, in order to allow investors to gain a better understanding of the potential scenarios.
- Furthermore, if the provisions of Regulation 10(B)(14)(a)(4) of the Reporting Regulations obtain, that is – the corporation's board of directors determined that a deficit in working capital or a deficit in working capital for a period of 12 months or a negative cash flow from ordinary operations for an extended period does not indicate a liquidity problem, the corporation will present the test that the board of directors applied, the reasoning for its decision, and details of the qualitative and quantitative criteria on which the board based its determination.

C. Disclosure in the financial statements on the financial position and going concern assumption

- When examining its financial position and the going concern assumption according to IFRS, the corporation is required to assess its ability to meet its liabilities and continue to operate as a going concern, and include, if necessary, a detailed disclosure of its assessment and its underlying assumptions in the notes to its financial statements (typically, in Note 1). This test is even more important in view of the War's impact on the business operations of many corporations, the continuation of the events of the War, and their significant effects. For example, according to IFRS, if a corporation is not certain that it will be able to meet its liabilities, but its assessment does not cast significant doubt regarding its ability to continue to operate as a going concern, the corporation must include a **detailed disclosure** about the assumptions that underlie its assessments including the management's plans and the probability that they will be executed, if relevant. This assessment must take into account events that occurred until the publication date of the financial statements.
- Note that according to IFRS, a going concern test is performed up to the publication date of the financial statements. Therefore, with respect to the financial statements of Q3/2023, the corporation's management must take into account all the information that is available to it, including the implications of the War on the corporation's operations and financial position, and other states of uncertainty that currently affect the corporation.
- In its description of the effects of the War on the corporation's business and its financial position, if these effects are or may become significant, the corporation must include qualitative and quantitative information that will allow the users of its reports to understand these effects. For example, effects on the corporation's compliance with financial covenants, including the risk of non-compliance; sources of financing that are available to the corporation and its ability to raise

additional sources of financing if needed; effects of the War on the results of its business operations (effects on revenues, costs); burn rate (especially during a significant contraction of its business operations), etc.

- The corporation must carefully ensure that the disclosure included in its financial statements makes it possible to understand its assessment of the War's effects on its financial position, and clarifies whether the disclosure refers to uncertainty regarding its financial position or regarding the effects on the corporation's business that does not affect the corporation's ability to meet its liabilities (e.g., War events that have significant implications on the corporation's business such as a significant decline in business operations, but do not affect the corporation's ability to meet its financial obligations). This distinction is also important when testing whether the warning signs defined in Regulation 10(B)(14) and Regulation 48(C)(13) of the Reporting Regulations obtain with respect to the disclosure on cash flow projections.

D. Auditor's reservations

In the event that the auditor includes a qualified opinion in their opinion or review report attached to the financial statements, it is important to ensure that the nature of the auditor's reservation is clearly understood by the investor public. The wording of the auditor's reservation must allow the readers of the financial statements to clearly understand whether:

- a. the emphasis of matter paragraph refers to a significant effect that may be caused by the outcome of uncertainty that is not related to a going concern assumption (specifically, reference to uncertainty that results from the War that is not related to the corporation's financial position), or
- b. the emphasis of matter paragraph that refers to the corporation's financial position but does not cast significant doubt on the corporation's ability to continue as a going concern, or
- c. the emphasis of matter paragraph refers to significant doubts regarding the corporation's ability to continue as a going concern (going concern note).

Classifying the auditor's emphasis of matter paragraph becomes even more important in view of the provisions of Regulations 10(B)(14) and Regulation 48(C)(13) of the Reporting Regulations for the test of warning signs as this term is defined in these Regulations.

4. Events subsequent to the balance sheet date –

As noted above, the Swords of Iron War was declared on October 7, 2023. As a result, this event occurred after the reporting period of the financial statements for Q3/2023, which ended on September 30, 2023. IAS No. 10 "Events After the Reporting Period" ("IAS 10") provides instructions on the accounting treatment and disclosure of events that occurred after the reporting period, and distinguishes between adjusting events and non-adjusting events.

According to IAS 10, in general, the War that began on October 7, 2023 constitutes a non-adjusting event that occurred after the reporting period (with the exception of the going concern issue, described above).

ISA Staff stresses that corporations are required to study the events that occurred after the reporting period and their effect on the corporation, according to their individual circumstances, and specifically so with respect to the events of the Swords of Iron War. Note that if a corporation determines that an event is non-adjusting, according to IAS 10 it must include in its financial statements a disclosure of the nature of the event, and an **estimate of its financial effects**, if feasible. However, even if the corporation believes that it is not feasible to include an estimate of the event's financial effects, ISA Staff encourages the corporation to present this estimate, which, in ISA Staff's view, is preferable to a disclosure of a general assessment. For examples that illustrate such events, see the section above on key points for disclosures in immediate reports.

5. The information noted in paragraph 1-4 above must be accompanied by a qualitative and quantitative estimate of the effect of the events (if they can be reliably estimated) on the corporation's business operations (e.g., damage to or suspended use of property, provisions for credit losses, diminished revenues or profitability).
6. ISA Staff clarifies that corporations that provide forward-looking information in an effort to inform investors of material developments, including anticipated trends or uncertainty regarding the effects of the War events, may use the defense determined for this purpose in Section 32A of the Securities Law 5728-1968.
7. Furthermore, corporations that included projections of their business and financial targets and operating performance in their previous reports will consider the need to revise these projections in order to provide more useful and up-to-date information to investors.
8. Finally, ISA Staff stresses that the corporations must present the information on the implications of the State of War clearly, in a detailed manner, and unselectively (without "cherry-picking"), to allow investors to assess these effects in a balanced, effective manner.