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Bulletin to Fund Managers and Trustees

Regarding the obligation to report the valuation of foreign bonds according to the instructions of the board of directors in the absence of a BGN price

To: Fund managers and trustees

By the Yael system

Background

The world is currently experiencing an event with macroeconomic implications due to the spread of the Corona virus in many countries. The State of Israel is taking significant and unprecedented steps as a result of this event in an attempt to stop the spread of the virus, as in other countries.

Recent weeks have been characterized by sharp declines in the prices of securities in many of the leading stock exchanges around the world, including the Tel Aviv Stock Exchange, accompanied by an increase in volatility in the prices of commodities and various risk assets. Fund managers must therefore deal with the complex management of investments under exceptional pressure while subject to manpower constraints as a result of the Ministry of Health's directives.

In normal times, and based on the pre-ruling issued on September 20th 2018¹¹ —in which the staff of the Israel Securities Authority (hereinafter: the ISA) expressed its position that a fund manager is permitted to consider the BGN prices, which are published on the Bloomberg information system, as based on reliable and sufficient information, such that they can be used to set the price of foreign securities traded in an organized market—fund managers set the prices of foreign bonds based on the BGN price. Currently, we are witness to a situation in the context of foreign bonds in which the quality of trading in the markets and current uncertainty has resulted in a BGN price not being published for many bonds.

According to Regulation 5(e) of the Joint Investment in Trust Regulations (Buying and Selling Prices of a Fund's Assets and Value of a Fund's Assets), 5754 – 1994 (hereafter: the Price Regulations), if a foreign bond does not have a price according to which it is possible to determine its value as set out in the regulations, its value will be determined according to the instructions of the fund's managing board of

¹¹ [Pre-ruling issued on September 20, 2018 \(Hebrew version\)](#)

directors. Therefore, if there is no BGN price published for a foreign bond, then according to the aforementioned regulations, the valuation of foreign bonds will be determined according to the instructions of the fund's managing board of directors, which are based on the "valuation procedure" of the fund's managers, as approved by the fund's trustee.

The result is that fund managers are currently valuing foreign bonds in circumstances specified by Regulation 5(e) of the Price Regulations on an ongoing and daily basis. For the fund manager, this creates an obligation to monitor and measure the effect of the valuation of each security on the redemption price of the fund units and to report when the value determined for the foreign bond or a number of foreign bonds has an impact on the redemption price of more than two-tenths of a percent, according to Regulation 20R of the Joint Investments in Trust Regulations (Reports), 5754 – 1994 (hereafter: the Reporting Regulations) and supplementary positions of the ISA staff on this matter in the bulletin from March 31st 2011 and in the Questions and Answers from August 4th 2011. In addition, the valuation in this way creates an obligation to count all of these bonds within the total of valued assets according to the instructions of the board of directors and to report the value of the aforementioned valued assets if their value exceeds 20 percent of the value of the fund's assets.

The ISA Staff Position

We are currently in the midst of a major crisis that is affecting the normal course of business and one that requires a flexible solution. In practice, when there is no price published for a foreign bond in an information system, measuring the effect on the redemption price on the basis of the change in the value of the security according to the last price that was published for it, which in any case is no longer published, does not reflect information that has any real meaning for the fund. Therefore, since this is an action that the fund manager will have to take on a daily basis or at least with high frequency, there is no reason to flood the public with information on changes in the price valuation of foreign bonds held by the fund, which is liable to mislead, nor is there reason to place this burden onto the fund manager.

Therefore and in the unique circumstances that have been created, the ISA staff will—in the context of the obligation to report that is specified in regulation 20R(b) of the Reporting Regulations **only**—view another objective price that is published by an information system and set according to the fund manager's valuation procedure as the "price that was published" as defined in the Price Regulations, when the circumstances exist for valuation according to regulation 5(e) of the Price Regulations.

Nonetheless, and according to the circumstances, the ISA staff believes that a valuation—which leads to a situation in which a major proportion of the fund's assets are valued according to a price that is not only published in an international information system, it is an indicative price that does not necessarily reflect the value at which the security can be sold—is important information to the average investor and in the absence of reporting according to regulation 20R the fund manager is required to report the details of the foreign bonds and their value within the value of the fund's assets using the form "Report on the Determination of the Value of a Fund's Assets according to the Instructions of the Board of Directors" (126K), when the aggregate value that was not determined according to the BGN price exceeds 5 percent of the value of the fund's assets and for any additional 5 percent change from the value of the fund's assets.

The above does not detract, in any other way based on the instructions of the law, from viewing this as a valuation carried out according to the instructions of the fund's managing board of directors which were approved by the trustee, nor from reporting any other report that is required as a result.

This position will remain valid until May 31st 2020 and its extension will be considered from time to time according to the circumstances.

Yours sincerely,

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Legal Counsel

Unit for Supervision of Mutual Funds