



## Israel Securities Authority

### **Temporary Directive based on paragraph 65a of the Joint Investments in Trust Law with regard to the value of fixed-term deposits (temporary directive)**

#### **General**

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. The mutual funds industry is experiencing exceptionally large volumes of redemptions, on a scale that has not been seen in the past, even in previous crises. In addition, and in line with the market trends, the value of fund's assets has fallen

As a result of this exceptional situation, the Israel Securities Authority (hereafter: the ISA) wishes to modify its regulatory and supervisory activity in order to protect the interests of the investors in Israel and at the same time to allow for the normal and uninterrupted operations of the bodies supervised by it. Therefore, the ISA is hereby announcing a temporary amendment of the temporary directive with regard to fixed-term deposits based on paragraph 65a of the Joint Investments in Trust Law, 5754 – 1994 (hereafter: the Directive and the Law, respectively), by means of a temporary directive, as will be explained below.

#### **Explanation**

On October 3<sup>rd</sup> 2018, a temporary directive based on paragraph 65a of the Law, regarding the value of fixed-term deposits, came into effect. The Directive deals with the widening of the limit on holding of fixed-term deposits by certain funds, as specified in the regulations, of up to 33 percent of the value of the fund's assets, under certain conditions; and on the condition that the rate of holding by the fund relative to the rate permitted in the regulations has increased passively, that is, due to a reduction in the value of assets in the fund, rather than the execution of additional trades. According to paragraph 1(d) of the Directive, the holding of fixed-term deposits at a rate that exceeds the rate set down in the Directive will not be deemed as a violation if its duration does not exceed 10 price calculation days. A fixed-term deposit, according to the instructions of the law, is a deposit for a period that does not exceed 30 business days or has an exit point every 30 business days or an early termination mechanism of 30 business days. Due to the exceptional level of redemptions, the rate of fixed-term deposits within the value of the fund's assets exceeds the maximal rate set down in the Directive, even when the fund manager issues an instruction to liquidify all of the deposits held by the fund. Since the reason for the deviation is the early termination period, it is not possible to reduce the rate of holding of fixed-term deposits in the fund to the permitted rate within a period of 10 price calculation days, as specified in the Directive. In normal times, the aforementioned problem exists continually, and the fund manager is required to deal with it by means of wise liquidity risk management, while taking into account possible volatility in the value of the fund's assets, due to volatility in the markets and due to redemptions. However, in the current

circumstances, there is a major difficulty faced by fund managers, through no fault of their own, in complying with the limits specified in the Directive.

Therefore, the ISA has decided to amend the Directive, such that an increase in the value of fixed-term deposits in a fund will not be deemed as a violation, if the conditions stated in the amendment below are met.

Without detracting from the aforementioned, the fund managers are required to continue their vigilance and prudence with respect to the risk implicit in the activity of the funds under their management and to make every effort to fulfil the instructions of the law and to minimize to whatever extent possible these deviations from the limits set down in the law.

### **The amendment**

During the period from the publication of this Directive on the ISA site until May 31, 2020 (the 8<sup>th</sup> of Sivan 5780), the following will replace paragraph 1(d) of the Temporary Directive concerning fixed-term deposits:

**“(d) if the value of fixed-term deposits in the fund exceeds the rate specified in paragraph 1(c), this will not be deemed as a violation until the transfer of the amount of the deposit to the fund’s account, on the following conditions:**

- (1) The conditions listed in the aforementioned paragraph have been met, even if the condition according to which the value of the fixed-term deposits deposited with a particular bank should not exceed one-half of the value of the fixed-term deposits in the fund, is not fulfilled;**
- (2) The fund manager has requested the withdrawal of the deposit at the earliest date possible according to the circumstances;**
- (3) The fund manager has reported the amount of the deviation from the maximal value to the fund’s trustee and to the fund’s managing board of directors at a frequency that is considered reasonable by the fund’s managing board of directors.”**