



Israel Securities Authority
Investments Department
22 Kanfei Nesharim St., Jerusalem 9546434
Tel: 02-6556565
Email: hashkaot@isa.gov.il
www.isa.gov.il

29 Adar 5780

March 26, 2020

To: Eli Bavli, Chairman of the Association of Mutual Fund Managers

Via email

Greetings,

RE: **Temporary cessation of proceedings due to non-reporting of a change in holdings of related parties**

As part of the ongoing dialogue that the Association of Mutual Fund Managers is currently holding with the Israel Securities Authority (hereafter : the ISA) staff , we have been asked to refrain from taking enforcement measures due to the non-reporting of a change in the rate of fund units held by related parties, as required by the Regulations of Investment in Mutual Funds (reports), 5755 – 1995 (hereafter: the Reporting Regulations). What is being requested and its justification are described below.

The background to the request

The world is currently experiencing an event with macroeconomic implications which is the result of the spread of the COVID-19 virus in many countries throughout the world. 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 volume of redemptions, on a scale that has not been seen in the past, even in previous crises. Furthermore, and according to the trend in the market, the funds' assets are suffering declines in value.

Reasons for the request

Regulation 23 of the Reporting Regulations establishes that a fund manager must report a change in the rate of fund units under his management, that are held by related parties – when the rate of holding reaches 25 percent, when the rate of holding drops below 25 percent, and when the

rate of holding is 25 percent at least and there is a change of at least 5 percent relative to the rate of holding in the previous report submitted according to this regulation.

Due to the crisis in the capital market and the high volume of redemptions in the mutual fund industry, alongside the drop in the value of the funds' assets, in the case of many funds a daily change is made in the relative rate of holding by related parties, who tend not to sell their investment in the fund even in such periods. As a result, the fund manager may be required to report a change at frequent intervals. Multiple reports to the public concerning changes in the holdings of related parties, which are primarily passive changes, do not contribute to the quality of information possessed by the public and may even make it more difficult for them to arrive at the correct conclusions based on this information. With respect to the fund managers, frequent reporting of a change in the holdings of related parties, according to the aforementioned regulation, creates a burden for them, especially since some of them are working in small groups in view of the directives of the Ministry of Health.

The position of the ISA staff

We are currently in the midst of an exceptional crisis that is affecting the normal course of business and a flexible solution is needed. The threshold for a change that requires reporting according to the regulation creates a situation in which the fund manager is required to report on changes on a daily basis or at the very least with a high frequency.

We do not believe that at the present time reporting frequently to the public on changes in the rates of holdings of 5 percent relative to the rate of holding reported in the previous report—when the changes were brought about in a passive manner—will help to improve the information in the hands of the public or that it will strengthen its ability to process data. Furthermore, it might even cause harm in view of the multiplicity of unnecessary reports, while at the same time this leads to the investment of resources by the fund manager.

In view of the above, and the other considerations that have been presented, the ISA staff will refrain from taking measures in response to non-reporting of changes in the rate of holding of related parties under the following conditions:

1. The rate of change does not exceed 10 percent of the fund's units relative to the previous report submitted according to Regulation 23(a)(3) of the Reporting Regulations;
2. The change in the rate was not the result of an action taken by the aforementioned related party.

The aforementioned does not detract from the obligation of the fund manager, according to the regulation, to submit a report when the fund reaches the threshold of holdings of 25 percent or drops below the threshold of holding of 25 percent.

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

This position is based on the facts and evidence presented in your request and on the assumption that your request includes all of the details and data required to respond to the question you

submitted. Any change in the facts or circumstances submitted to us may lead to a different conclusion with respect to the question submitted.

This letter expresses the position of the ISA staff regarding enforcement activity and is not intended to express any other conclusion or legal position regarding the question presented to us. The position of the ISA staff does not constitute any defense for the inquirer or a third party that relies on its decision in response to legal exposures that are liable to arise, including claims made by third parties or decisions of the courts that are not in alignment with the decision of the ISA.

In addition, we hereby inform you that according to the procedure for dealing with pre-ruling inquiries made to the ISA (published on the site of the ISA in June 2008), this pre-ruling inquiry and the response may be published on the ISA site.

Yours sincerely

Maya Gerti Gilboa
Legal Counsel
Unit for Supervision of Mutual Funds