Public comments on the Draft <u>Directive for Fund Managers concerning Disclosure on Behalf of a Fund on its Potential Exposure to Non-(Investment-Grade Bonds and to the Banking Corporation that Holds the Fund's Cash and Deposits</u>

No.	Commenter	Comment	Reasoning for acceptance/denial
1.	Association of Mutual Fund Managers	**A period of one month is insufficient.** It is the opinion of the Association that the aforementioned period of one month, during which the funds to which the Provisional Directive refers may continue to hold bonds that have been downgraded to below investment grade, is insufficient. A month that contains no holidays has 22 trading days for limited foreign securities funds, and 18 trading days for funds that are not limited foreign securities funds. Therefore, <u>the effect of the proposal in the Draft Provisional Directive is an additional 12 or 8 trading days</u>, as relevant, for holding bonds that have been downgraded to below investment grade, above and beyond the 10 trading days that are currently permitted according to the original directive. The Association believes that during a significant and prolonged crisis in the capital market, which could lead to downgrading of bonds on a relatively large scale, where the rapid sale of such bonds could cause losses to fund unit holders if there is no discretion to select the optimal timing for a sale — **the directive should determine a longer period of three months**, as the bsic directive determines for funds classified as "Domestic bonds – general," "Domestic bonds – corporate and convertible" and "Foreign bonds." Although funds classfied as "Domestic bonds – government," "Domestic bonds – shekel," and "Domestic bonds – foreign currency" <u>are expected to be relatively conservative</u>, these funds are actually typically less tolerant of losses and therefore the requirement to sell bonds whose rating dropped within a relative short period, without sufficient discretion to select the optimal timing of their sale, could create more harm to unit holders than funds in categories that are typically considered less conservative funds.	**The request is denied**. The Association reiterated its original request to determine an adjustment period of three months. The request was taken under advisement and the ISA concluded that a one-month extension adequately strikes a balance between the need to give fund managers greater flexibility to time the sale and the fact that in conservative instruments, the extension increases the period in which the fund is subject to an increased credit risk.

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2.	Association of Mutual Fund Managers	**Single report on modifications to investment policy on behalf multiple funds** According to the original directive and the draft provisional directive, fund managers are required to report any change in the investment policy of relevant funds that concerns an extension of the period in which the fund's investments must be adjusted to its obligation to refrain from any exposure to non-investment-grade bonds (according to the original directive – 3 months for specific categories, and according to the provisional directive – 1 month for additional categories). In view of the provisional rather than permanent nature of the draft directive, which is expected to remain in effect for several monthly only, it is requested to permit funds to report changes in investment policy in a single report (Fund Event Report Form K123), and not entail the procedure for modifications to fund investment policies including all its implications, which require tens of individual reports and newspaper publications on changes in investment policy of funds (Form K-050), which would overburden fund managers in these times. It is also proposed that the said general report will not require details of the specific funds to which the extension is requested, but rather a general noted that the assets in all the reported funds that meet the relevant conditions will be adjusted after the downgrading of bonds, within the designated period (otherwise, in order to identify the relevant funds, the fund manager is required to examine, for each fund they manage, whether the fund meets the previous conditions, and whether the fund used the extension or not; this would create a considerable administrative burden on the fund managers). It is also requested to permit fund managers to file a general report with respect to funds that are already eligible for a three-month adjustment period where the fund manager did not determine this adjustment period in its investment policy. It is suggested to study whether the provisional directive, which permits said deviation, could be deemed a publication that informs the public of the deviation and therefore would eliminate the need for specific reporting by fund managers.	**The comment is partially accepted.** Fund managers that intend to use this provisional relief are requested to file a report of the change in the investment policies of the relevant funds. Fund managers may file such reports in a single report for all the relevant funds using Fund Event Form K123, and publish a single notice for all relevant funds in a newspaper, in coordination with ISA Staff. The report must refer to specific funds, in line with the report on policy changes. This becomes has even more important implications for transparency of information available to fund unit holders and to investors in general, and therefore the Association's request to refrain from referring to specific funds is denied.

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3.	Mizrahi Tefahot Trust Company	**Single report for multiple funds** - The proposed change requires a revision to the investment policy in a propsectus or report. It is suggested to clarify that such revisions can be made in a single immediate report published by the fund manager in a public manner, referring to the relevant funds under its management, without requiring any amendment to the fund agreement (if the investment policy is included in the fund agreement).	Comment accepted. As noted in paragraph (2) above. In the matter of amendments to fund agreements, due to the provisional nature of the amendments, amendment to fund agreements may be reported in a single report for all relevant funds using a Fund Event Report Form K123
4.	Association of Fund Managers and Mizrahi Tefahot Trust Company	**Adjust section 1(d) to the Directive** – If the ISA does not agree to a three-month period, the text of the condition in Section 1(d) should be adjusted to the adjustment period that is defined.	Comment accepted. The issue will be clarified in the text of the Provisional Draft.
5.		**Reference in annual reporting** – As noted, the Provisional Directive will be in effect for a relatively short period. It is therefore requested to permit fund managers not to refer to changes in policy in annual fund reports (where relevant) that are published after the Provisional Directive expires, otherwise these reports will be required to refer both to the ordinary rule that applies in the event of downgrading, and to the special rule that applies when the Provisional Draft is in effect.	Fund managers will be required to make reference to this in their annual reports, wherever relevant.

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6.		**Adding an exclamation point to a fund's name** It is requested to add a section to the Provisional Directive that determines that despite the Directive's provisions concerning custodial and credit risks, a fund will not be deemed in breach of the obligation to invest the fund's assets according to its investment policy if it holds bonds that have been downgraded below investment grade without adding an exclamation point to the fund's name, if the conditions stated in the Directive (concerning a disclosure on behalf of the fund regarding its potential exposure to non-investment-grade bonds, including the conditions determined in the provisional directive) obtain.	The directive on custodial and credit risks, and the directive on a disclosure on a fund's behalf concerning its potential exposure to non-investment-grade bonds and to the banking corporation that holds the fund's cash and deposits, and the provisional directive on this matter are all consistent. Therefore, in the permitted adjustment period, subject to compliance with the conditions determined in the directive on a disclosure on the fund's behalf, holding downgraded bonds will not be deemed a breach of the fund's obligation to invest its assets according to its investment policy, also for the purpose of the directive on custodial and credit risks.
7.	Association of Fund Managers	**Effect** – According to the Draft Provisional Directive, it will remain in effect up to July 31, 2020. It is requested that the ISA review the situation before the end of this period, because an extension of the Provisional Draft may be warranted.	According to the circumstances, the ISA will consider the need to extend the Provisional Draft.