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JOINT INVESTMENT TRUST LAW, 5754 -1994

CHAPTER ONE: INTERPRETATION

Definitions

1. In this Law –

"**the distribution site**" – an Authority website, open for inspection by the public, displaying reports and prospectuses submitted to the Authority by Fund Managers or Trustees, within the meaning thereof in section 4;

"**Stock Exchange**" – a Stock Exchange in Israel and a Stock Exchange abroad that was approved by whoever is authorized to give it statutory approval in the country in which it operates;

"**Stock Exchange in Israel**" – a Stock Exchange within its meaning in the Securities Law;

"**bank in Israel**" – a bank within its meaning in the Banking Law;

"**bank abroad**" – a body corporate incorporated abroad, for which the following two conditions hold true:

- (1) it engages in activities that in Israel would require a banking license under the Banking Law;
- (2) it was approved, by whoever is authorized to approve it under the foreign State's Laws, to engage in the activities said in paragraph (1), and it is subject to supervision by whoever is authorized for that purpose in that State;

"**outside Director**" – as defined in the Companies Law;

"**instruction**" – by the Authority or the Authority Chairman, including a demand that they made;

"**extraordinary resolution by unit holders**" – a resolution adopted by a General Meeting of the unit holders, as required under this Law, which meets the following two conditions:

- (1) the resolution was adopted, as required under this Law, by a majority of at least three fourths of the unit holders who voted in person or by proxy;
- (2) those who voted to adopt the resolution hold at least 51% of the number of units held by unit holders who voted in person or by proxy;

"**company**" – as defined in the Companies Law or a foreign company registered under

section 346 of the said Law;

"**management company**" and "**provident fund**" – as defined in the Control of Financial Services (Provident Funds) Law, 5765 - 2005;¹

"**foreign company**" – as defined in the Companies Law

"**Banking Law**" – the Banking (Licensing) Law 5741-1981;

"**Companies Law**" – the Companies Law, 5759-1999;

"**Currency Control Law**" – the Currency Control Law 5738-1978;

"**Law to Promote Competition and Reduce Concentration**" – the Law to Promote Competition and Reduce Concentration 5774-2013;

"**Securities Law**" – the Securities Law 5728-1968;

"**price calculation day**" – a day on which and for which, according to section 46(e), the manager of an open fund must calculate the acquisition price and the sale price of the fund's assets;

"**business day**" – any day of the week, on which most holders of bank licenses under the Banking Law are open for business, except if it is the eve before a day of rest within its meaning in the Law and Administration Ordinance 5708-1948;

"**units**" – within their meaning in section 3(b);

"**foreign currency**" – a currency that is legal tender in any country and is not Israel currency;

"**distributor**" – a Stock Exchange member, with whom orders for units may be placed;

"**officer**" – a senior officer, as defined in the Securities Law, and also – in respect of a Fund Manager – a member of the Investment Committee, as defined in section 20(a), and in respect of a Trustee – the person in the Trustee charged with fulfilling the Trustee's obligations and responsibilities, as said in section 78;

"**securities**" – within their meaning in the Securities Law, including securities issued by the State;

"**foreign securities**" – securities traded on a Stock Exchange abroad or on an organized market abroad, or shares or units of a fund registered abroad;

"**personal interest**" – as defined in the Companies Law;

"**agreed transaction**" – a transaction carried out on a Stock Exchange in Israel, its conditions having been agreed in advance by the parties to it;

"**Companies Ordinance**" – the Companies Ordinance [New Version] 5743-1983;

¹ *Sefer Hahukim* (Book of Laws) 5765, p. 889

"publication in a newspaper" – publication in at least two widely circulated daily newspapers that appear in Israel in Hebrew, at least one of which is a widely distributed newspaper within its meaning in section 1A of the Planning and Building Law 5725-1965; in respect of a fund approved for foreign residents only – publication in at least one aforesaid widely circulated newspaper and publication in at least one daily newspaper that appears in Israel in English;

"relative" – as defined in the Companies Law;

"fund" – a joint investment trust fund, within the meaning thereof in section 3;

"high-tech fund" – a closed fund which is designated in the fund agreement as a high-tech fund;

"special fund" – a closed fund, designated in the fund agreement as a special fund;

"open fund" – a fund, designated in the fund agreement as an open fund;

"closed fund" – a fund, designated in the fund agreement as a closed fund;

"net value of fund assets" – the value of the fund's assets, less its obligations;

"regulated market" – a system, by which trading in securities, options and futures is carried on according to rules prescribed by the person statutorily authorized to prescribe them in the country in which it operates;

"fund's fiscal year" – a period of 12 months designated by the Fund Manager in a prospectus or report as the fund's fiscal year, or a shorter period of time, which the Fund Manager so designated, if it is the fund's first fiscal year or the first fiscal year after a the Fund Manager revised the fund's fiscal year.

"interested party", "equity", "holding", "the Authority", "affiliate", "misleading particular", "control" – within their meaning in the Securities Law;

"license holder", "investment counselor" and "portfolio manager" – as defined in the Regulation of Investment Counseling and Portfolio Management Law 5755-1995 (hereafter: the Regulation Law).

CHAPTER TWO: ESTABLISHMENT OF A FUND

Article One: The Nature of a Fund

Applicability

2. (a) This Law shall apply to any arrangement, the purpose of which is the joint investment in securities and the joint production of profit from holding them and from any transaction with them, which is not regulated under another statute; for purposes of this section, options and futures, as defined in section 64(b), are deemed securities.
- (b) Notwithstanding the provisions of subsection (a), this Law shall not apply to an arrangement with the said purpose, in which the number of participants does not exceed fifty and which is made without an approach to the public.

Joint investment trust fund

3. (a) An arrangement to which this Law applies shall not be made, except by a joint investment trust fund founded by a trust management agreement under this Law (in this Law: fund agreement).
- (b) A fund shall be composed of units, each of which entitles to an equal share in the fund.

Article Two: Fund Agreement

Fund agreement

4. The fund agreement shall be concluded between a company approved under section 9 as Trustee, in which the fund assets shall be vested (hereafter: the Trustee) and another company approved under section 13 as a Fund Manager, which shall manage the fund's assets (hereafter: Fund Manager).

Particulars of the fund agreement

5. (a) The following particulars shall be determined in the fund agreement:
 - (1) the name of the fund;

- (2) the name of the Trustee and the name of the Fund Manager and the addresses of their registered offices;
 - (3) whether the fund is to be an open fund, a closed fund or a special fund;
 - (4) in an open fund – the times in respect of which the unit price and the redemption price are to be calculated, if those prices are to be calculated more than once a day;
 - (5) in a closed fund – the times when unit owners may redeem them, if such times were set, and the maximum proportion of units that a unit holder may redeem at the said times – if a said proportion was set;
 - (6) in an open fund – the times when the units are to be offered to the public and when they are to be redeemed, if the times for unit offerings and their redemption are set in advance;
 - (7) the maximum rate of addition, as said in sections 42(c) or 50(c), and whether it is to be added to the unit price or deducted from the redemption price;
 - (8) the fund's investment policy and ways in which it can be changed;
 - (9) *repealed*;
 - (10) the period during which the fund is to exist, if that period is limited;
 - (11) whether the fund is a restricted fund or an unrestricted fund;
 - (12) the Trustee's remuneration and the Fund Manager's remuneration;
 - (13) the period of the Trustee's tenure;
 - (14) how the fund agreement can be changed.
- (b) The provisions of subsection (a) shall not prevent the determination of other particulars in the fund agreement.
 - (c) The Minister of Finance may, by regulations, prescribe other subjects to be included in the fund agreement, as well as restrictions applying to the said subjects.
 - (d) The fund agreement shall not include stipulations that may be understood to say explicitly or implicitly that the Trustee or the Fund Manager is relieved of his responsibilities under this Law or under any other statute.

Misleading name

6. (a) A fund must not have a name that is liable to mislead.
 - (b) The Authority may instruct the Fund Manager – after it gave him an opportunity to present his arguments – to change the name of the fund within a period that it shall prescribe, if it holds that it is liable to mislead.
 - (c) *repealed.*
7. *Repealed*

Registration of the fund agreement

8. (a) A Fund Manager shall submit the fund agreement to the Authority for registration before the first unit is issued; if the fund agreement is changed, the Fund Manager shall submit the changed fund agreement to the Authority before the change goes into effect.
- (b) The fund agreement shall be open for inspection by the public in the head offices of the Fund Manager and of the Trustee.
- (c) The Fund Manager shall provide a copy of the fund agreement and of any change in it to any unit holder at his request, against a payment set by the Trustee.

Article Three: Trustee

The Trustee

9. (a) A company shall not serve as Trustee for a fund, except if it was approved by the Authority Chairman after he concluded that the company meets the following requirements:
 - (1) it is one of these:
 - (a) a banking corporation, within the meaning thereof in the Banking Law, other than a joint service company;
 - (b) an insurer, within the meaning thereof in the Insurance Business (Control) Law 5741-1981;
 - (c) a company, the main business of which is the performance of trust obligations;

- (2) it has equity – in addition to the equity statutorily required in connection with its other activities – in an amount that is not smaller than the amount prescribed by the Minister of Finance in regulations;
 - (3) it has insurance, a bank guaranty, a deposit or securities in amounts, in proportions and on conditions prescribed by the Minister of Finance; insurance under this paragraph may be designated insurance in addition to that required in consequence of its other businesses.
- (a1) The Authority Chairman shall not refuse to give an approval said in subsection (a) to a company that meets the conditions said in that subsection, unless he brought the application before the Licenses Committee and the Licenses Committee decided – after it had given the company an opportunity to present its arguments – not to give the said approval because of reasons related to the reliability of the company, of its controlling members or of an officer in either of them.
- (b) *repealed*
- (c) The Minister of Finance may prescribe qualifications for those employees of a company that serves as Trustee, who will engage in the fulfillment of the Trustee's obligations and in functions under section 78.
- (d) A company shall not serve as Trustee for a fund, if one of the following applies:
- (1) it is a company that is part of the Fund Manager's group or a company that holds more than 10% of the issued share capital of the Fund Manager or of a company that controls it or it is a company controlled by one of the said companies;
 - (1a) it is a company controlled by the Fund Manager or by a company in which any person who belongs to the Fund Manager's group holds more than 25% of the company's issued share capital;
 - (2) it is a company that controls the Fund Manager or a company under the control of a said company, serves as Trustee of a fund, the manager of which is a company under its control or a company that controls it, or is controlled by a company that controls it;
 - (3) the General Manager, employee or Director of whoever belongs to the company's group is a General Manager, Director or employee of whoever belongs to the Fund Manager's group or is employed by whoever belongs to the Fund Manager's group;
 - (4) one of the person who belongs to the Fund Manager's group has a business

connection with the Fund Manager or a substantive business connection with a body corporate controlled by a said person; in this subsection –

"business connection" – a connection between customer and supplier, a connection between a service provider and a service recipient, the grant or the receipt of loans, property rental, business partnership, joint transactions, joint property ownership or any other business or economic connection, all whether direct or indirect, whether permanent or on a one-time basis, other than a connection due to the provision of these services:

- (1) trusteeship for funds or for debentures, as defined in section 35A of the Securities Law;
- (2) customary banking services in the course of the bank's ordinary business and on market terms, on condition that income therefrom does not exceed 5% of the bank's income;

"substantive business connection" – a business connection, including a business connection derived from the provision of customary banking services, from which total income, together with income from all business connections of the company's group with the Fund Manager's group, exceeds 5% of the company group's total income;

- (5) the company group's total income, derived from the overall business connection with the Fund Manager's group exceeds 15% of the company group's total income; in this paragraph –

"income" – total income according to the latest annual financial reports;

"overall business connection" – a business connection, including business connections derived from the provision of services said in paragraphs (1) and (2) of the definition of "business connection";

- (6) there are other circumstances in which conflicts of interest are liable to arise between persons who belong to the company group and holders of fund units.

(e) A trustee's tenure under a fund agreement shall not be less than three years; when a Trustee's tenure is extended, the period of extension shall not be less than two years.

(f) in this section –

"company group" – the company, a person who controls the company and a body corporate controlled by a said person;

"Fund Manager's group" – the Fund Manager, the person who controls the Fund Manager and a body corporate controlled by a said person.

Obligation to report faults of reliability to the Authority

- 9A. (a) A Trustee shall inform the Authority when any of the circumstances specified below occurs, whether in Israel or abroad, in respect of the Trustee, the Trustee's controlling member or an officer of either as soon as he learned about it and not later than the end of the first business day thereafter:
- (1) conviction for an offense, but – if the offense is a heinous offense – only if the Court determined that the offense is heinous;
 - (2) an indictment that was brought or a disciplinary proceeding that took place in respect of an offense that is not heinous;
 - (3) an investigation or administrative inquiry in connection with the commission of an offense that is not heinous or with the violation of an economic statute provision, by an authority authorized to conduct an investigation or administrative inquiry, as the case may be;
 - (4) payment of a monetary obligation in lieu of a criminal proceeding in connection with the violation of an economic statute provision, and also the conduct of an administrative proceeding for violation of said provisions, a possible result thereof being the imposition of administrative enforcement measures;
 - (5) payment of monetary composition or the receipt of a demand for the said payment for violation of an economic statute provision;
 - (6) judgment in a civil action or a civil action brought for the violation of an economic statute provision, also by way of an action by virtue of section 63 of the Civil Wrongs Ordinance [New Version], on condition that the said action included a claim of fraud or negligence.
- (b) A notice said in subsection (a) shall not be open for viewing by the public, except if in its respect there is an obligation to submit a report under section 72(a) due to the importance of the information included in it for a reasonable investor who considers buying or selling a unit.
- (c) An officer of a Trustee, a controlling member of a Trustee and an officer thereof shall inform the Trustee of any occurrence said in paragraphs (1) to (6) of subsection (a) immediately after he learned thereof; a notice under this subsection shall include the particulars that the Trustee needs in order to fulfill his obligation under subsection (a).
- (d) In this section –

"economic statute provision" – any provision of the statutes enumerated in the definition of "offense";

"monetary obligation in lieu of a criminal proceeding" – as defined in section 260(a) of the Companies Law;

"offense" – an offense under one of the Laws specified below, other than an offense for which the penalty is only a fine – this Law; the Prohibition of Money Laundering Law 5760-2000; the Securities Law; the Regulation Law; the Companies Ordinance; the Companies Law; the Banking Law; the Banking Ordinance 1941; the Banking (Service to Clients) Law 5741-1981; the Income Tax Ordinance; the Real Estate Taxation (Appreciation and Acquisition) Law 5723-1963; the Value Added Tax Law 5736-1975; the Customs Ordinance; the Trade Levies and Defensive Measures Law 5751-1991; the Restrictive Business Practices Law 5748-1988; the Control of Financial Services (Insurance) Law 5741-1981; the Control of Financial Services (Pension Counseling, Pension Marketing and Pension Clearing System) Law 5765-2005; the Control of Financial Services (Provident Funds) Law 5765-2005; or a heinous offense;

"heinous offense" – a different offense which because of its nature, severity or circumstances makes a person convicted of it unfit for being an officer in a Fund Manager or Trustee, as the case may be, or to hold means of control in a Fund Manager, including offenses under foreign Law and disciplinary offenses.

Lapse of approval

10. The validity of the approval given a company for service as Trustee shall lapse after one year in which the company did not serve as Trustee.

Cancellation or suspension of a Trustee's approval

10A. (a) If the Authority Chairman concluded that in respect of a Trustee there are circumstances enumerated under subsection (b) that evidence a fault in the reliability of the Trustee, of its controlling member or of an officer in either of them, and if he believes that the fault can be corrected, he may order that it be corrected within a period that he shall prescribe; if the fault cannot be corrected or if the period that the Authority Chairman prescribed passed and the fault was not corrected, the Licenses Committee may – after it has given the Trustee an opportunity to present its

arguments – suspend or cancel by a reasoned written decision the approval that had been given the Trustee.

- (b) The Authority shall determine a list of circumstances that indicate a fault in the reliability of a Trustee, of its controlling member or of an officer of either of them; a said list shall be posted on the Authority's Internet site and shall go into effect 30 days after it was posted, but a change in the list shall not apply to a proceeding under this section that is pending; notice that a list was posted and of every change thereof and the date of their effect shall be published in the Official Government Gazette.

End of a Trustee's tenure

- 11. (a) A Trustee's tenure shall end when any of the following occurs:
 - (1) one of the conditions specified in section 9(a)(1) ceased to apply to it, one of the conditions in section 9(d) applies to it or one of the conditions in section 9(a)(2) or (3) or under section 9(c) did not apply to it during a cumulative period of 45 days within a year that began on January 1;
 - (2) the period of his tenure under the fund agreement came to an end;
 - (3) he resigned and his resignation was approved by the Court, after it heard the Fund Manager and the Authority Chairman;
 - (4) a Court ordered the appointment of a temporary receiver or temporary liquidator for the Trustee and the order was not rescinded within sixty days or by a later time that the Authority Chairman set because of special reasons.
- (b) A Trustee whose tenure has ended shall so inform the Authority immediately at the end of his tenure and in his notice he shall specify the reasons for its termination; when an order said in subsection (a)(4) has been made, the Trustee shall immediately inform the Fund Manager and the Authority about it.
- (c) If the Authority concluded that a Trustee does not perform his function according to the provisions of this Law and that an interest of unit holders is or is liable to be harmed, it may order him to correct the shortcomings within a period it shall set; if the shortcomings were not corrected within that period, the Authority may – after it gave the Trustee an appropriate opportunity to present his arguments – petition the Court that it remove the Trustee.

Trustee in place of a Trustee whose tenure ended

12. (a) When a Trustee's tenure has ended, the Fund Manager shall see to it that a company approved under section 9 sign the fund agreement and begin to serve as Trustee of the fund within ninety days after the Trustee's tenure ended.
- (b) A Trustee whose tenure ended shall continue to hold his office until the date on which a new Trustee begins to serve in his place, as said in subsections (a) or (c).
- (c) If another Trustee has not begun to serve in place of the Trustee whose tenure ended within ninety days after the end of that tenure, the Authority may – after it gave the Fund Manager an appropriate opportunity to state its arguments – order the Fund Manager to transfer the fund under its management to another Fund Manager of its choice within a reasonable time that it shall prescribe; if another trustee began to hold the position before the end of the said period, the Authority's order under this subsection shall be deemed to have been canceled.

Article Four: Fund Manager

Licenses Committee of the Authority

- 12A. (a) The Authority shall appoint a Licenses Committee (in this Law: Licenses Committee) with the following members:
 - (1) the Authority Chairman;
 - (2) two members from among the Authority's members, who are State employees or Bank of Israel employees.

Fund Manager

13. (a) A company shall not serve as Fund Manager, except if it was approved by the Authority Chairman, after he found that the company meets the following conditions:
 - (1) its sole occupation is the management of funds;
 - (2) its equity is not less than an amount that the Minister of Finance prescribed in regulations;
 - (3) it holds insurance, a bank guaranty, a deposit or securities in amounts and proportions and on terms that the Minister of Finance prescribed.
- (a1) The Authority Chairman shall not refuse to give approval under the provisions of subsection (a) to a company that meets the requirements of that subsection, except if

he brought the company's application before the Licenses Committee and the Licenses Committee decided – after it gave the company an opportunity to present its arguments – not to grant the said approval because of reasons connected to the company's reliability or to the reliability of each of these:

- (1) a controlling member of the company;
 - (2) a person who, after receipt of the approval will participate in decisions on the management of a fund managed by the company;
 - (3) officers of the company or of any of those specified in paragraphs (1) or (2).
- (b) *repealed*
- (c) (1) A Fund Manager's employee or a person whom a Fund Manager employs and who participates in making decisions about the management of the fund's investment portfolio shall be the holder of a portfolio manager's license; a said employee who is not an Israel resident and only participates in decisions about foreign securities – other than foreign securities issued by companies registered in Israel – shall hold permission to manage investments for others under the Laws of the country in which he lives, to manage investments for others and the provisions of section 2(b) of the Regulation Law shall not apply to him.
- (2) For purposes of the closing phrase of section 2(b) of the Regulation Law and for purposes of section 8(a)(5) and (6) of the said Law a Fund Manager shall be deemed a company that holds a portfolio manager's license, that took out insurance as required and that in it internship may be completed as required.
- (c1) The Minister of Finance may prescribe qualifications for Directors and committee members that the Fund Manager's Board of Directors must appoint under this Article, as well as provisions to assure the effectiveness and orderly operation of the internal audit system and of the internal enforcement program, including provisions on the obligation to appoint officers to be in charge of the said system and program, on their qualifications and on provisions to ensure effective risk management.
- (c2) Notwithstanding that stated in subsection (c)(1), the Minister of Finance may set other criteria for the engagement of a person by a Fund Manager in the fund's investment portfolio management or in advice pertaining to said management.
- (d) A company shall not serve as a Fund Manager, if its General Manager is a Director or General Manager of another Fund Manager.
- (e) *Repealed*

Obligation to report faults of reliability to the Authority

- 13A. (a) Fund Managers shall inform the Authority when one of the circumstances specified in section 9A(a) occurs in respect of any of those specified below, as soon as they learn of the fact and not later than the end of the first business day thereafter:
- (1) the Fund Manager or one of its officers;
 - (2) a controlling member of the Fund Manager or one of its officers;
 - (3) a person who participates in decisions connected to the management of a fund that it manages or who advises the Fund Manager.
- (b) A notice said in subsection (a) shall not be open for viewing by the public, except if in its respect there is an obligation to submit a report under section 72(a) because of the importance of the information included in it for a reasonable investor who considers buying or redeeming a unit.
- (c) A person who is one of these shall give the Fund Manager notice of an event said in subsection (a) immediately after he learned of it; a notice under this subsection shall include the particulars that the Fund Manager needs in order to fulfill its obligation under subsection (a):
- (1) a controlling member of the Fund Manager;
 - (2) a person who participates in decisions connected to the management of a fund that it manages or who advises the Fund Manager;
 - (3) an officer of the Fund Manager or of one of those specified in paragraphs (1) and (2).

Lapse of approval

14. The validity of an approval for a company to serve as Fund Manager shall lapse in either of the following instances:
- (1) after one year in which the company did not serve as Fund Manager;
 - (2) if a Court order was issued to appoint a temporary receiver or a temporary liquidator for the Fund Manager and the order was not rescinded within sixty days or within a longer period set by the Authority Chairman because of special reasons; a Fund Manager shall inform the Trustee and the Authority immediately when such a Court order is made.

Cancellation or suspension of an approval

15. (a) If the Authority Chairman concluded that one of the provisions under section 13 no

longer applies to a Fund Manager or that there are circumstances enumerated in a list under subsection (a1) that evidence a fault in the reliability of a Fund Manager, of one of its controlling members or of an officer in either of them, and if he believes that the fault can be corrected he may order the Fund Manager to correct the fault during a period that he shall set; if the fault cannot be corrected or if the period set by the Authority Chairman passed and the fault was not corrected, the Licensing Committee may – after it has given the Fund Manager an opportunity to present its arguments – by a written reasoned decision suspend or cancel the approval that was given to serve as Fund Manager.

- (a1) The Authority shall prescribe a list of circumstances that evidence a fault in the reliability of a Fund Manager, of its controlling member or of an officer in either of them; a said list shall be posted on the Authority's Internet site and shall go into effect 30 days after it was posted, but a change in the list shall not apply to a proceeding under this section that is pending; a notice that the list was posted and of every change thereof and the date of their effect shall be published in the Official Government Gazette.
- (b) Repealed
- (c) Repealed
- (d) If the Authority canceled or suspended approval given to a company to serve as Fund Manager as said in subsection (a), or if the approval given a company to serve as Fund Manager lapsed as said in section 14(b), the company shall transfer the management of the funds to another Manager within a time that the Authority Chairman shall set.
- (e) If the time set by the Authority Chairman under subsection (d) has passed and the Fund Manager did not transfer management of the funds to another Manager, the Court may – on the Authority's petition – appoint a receiver in order to transfer of the management of the fund.
- (f) For the purposes of this section, "**other Manager**" – a company that meets the requirements of section 13 and is not a company that controls the Fund Manager or a company controlled by a said company.

Board of Directors of a Fund Manager

16. (a) At least five Directors shall serve on the Board of Directors of a Fund Manager; in respect of the appointment of outside Directors a Fund Manager shall be treated like a company, the securities of which were offered to the public by prospectus and are held by the public and the provisions of sections 239 to 249 of the Companies Law on the appointment of outside Directors shall apply to the appointment of outside Directors, mutatis mutandis, unless a different provision was made under this Law.
- (a1) The outside Directors shall be appointed by the Fund Manager after the Trustee checked and certified that they meet the eligibility qualifications prescribed in section 240 of the Companies Law; the Trustee shall report the results of his examination to the Securities Authority and in respect of a closed fund also to the Stock Exchange.
- (a2) A person who controls a significant financial body, a person connected to an aforesaid controlling member or an officer of a significant real body corporate shall not be appointed and shall not serve as Director of a fund that is a significant financial body; the Authority Chairman may prescribe provisions about a Director's continued service during sale proceedings said in section 23B2(d); in this subsection –
- "person connected to a controlling member"** – the controlling member's relative or partner or a person with a connection to the controlling member, as defined in section 240(b) of the Companies Law;
- "financial body"** and **"real body corporate"** – as defined in section 28 of the Law to Promote Competition and Reduce Concentration;
- "significant financial body"** – a financial body listed in the list of significant financial bodies under section 29 of the Law to Promote Competition and Reduce Concentration;
- "controlling member"** in a significant real body corporate – including the holder of a controlling parcel, as defined in the Companies Law, in a significant real body corporate that does not have any other controlling member;
- "significant real body corporate"** – a real body corporate named in the list of significant real bodies corporate that was published under section 30 of the Law to Promote Competition and Reduce Concentration.
- (b) Not more than one third of the Directors of a Fund Manager shall also serve as Directors of another Fund Manager, of a provident fund, of a company that manages a provident fund, of a company that manages investment portfolios for others, of an investment counseling company or of an insurer as defined in the Insurance Business

(Control) Law 5741-1981 (in this Law: investment management company), all exclusive of a company that controls the Fund Manager or a company controlled by a said company.

- (c) The Director of a Fund Manager shall not, at the same time, serve as Director in more than two additional investment management companies, except in cases permitted by the Minister of Finance by regulations.
- (d) The number of Directors who are employees of a Fund Manager or are employed by a Fund Manager shall not exceed one third of their total number.
- (e) When appointing the Board of Directors of a Fund Manager the composition of the Board of Directors shall be such, as will enable to Board of Directors to meet its responsibilities.

Chairman of the Board of Directors

16A. Without derogating from the provisions of section 16(e) –

- (1) the Board of Directors of a Fund Manager shall elect one of its members to serve as chairman of the Board of Directors;
- (2) the General Manager of a Fund Manager, a person directly or indirectly subject to the General Manager or a relative of the General Manager shall not serve as chairman of the Board of Directors;
- (3) powers of the General Manager or powers vested in a person directly or indirectly subject to the General Manager shall not be vested in the chairman of the Board of Directors or in his relative; the chairman of the Board of Directors shall not serve as any other officer of the Fund Manager, except as member of a Board of Directors Committee other than the Audit Committee.

Board of Directors meetings

- 17. (a) Meetings of a Fund Manager's Board of Directors shall be held at least once in a quarter; the interval between one meeting and the next shall not be longer than four months.
- (b) A majority of Directors shall constitute a quorum at Board meetings, on condition that –
 - (1) an outside Director is present at the meeting;
 - (2) not more than one third of those present at the meeting are Directors who serve as Directors of more than one investment management company.

- (c) At Board of Directors meetings minutes shall be kept, listing the names of those present, the main points of the discussion and the decisions adopted.
- (d) If an outside Director is absent from four consecutive Board of Directors meetings, his term of service shall lapse.

Responsibilities of Board of Directors

18. The responsibilities of the Board of Directors shall also include:

- (1) determining the fund's investment policy, as will be defined in the fund agreement and in the prospectus, and prescribing substantive changes of the said policy to the best of its judgment;
- (2) appointing a managing Director;
- (3) supervising the managing Director's performance and checking how decisions of the Board of Directors are implemented;
- (4) weighing the results of the fund's activities, including the return obtained and changes in the composition of the fund's assets and obligations, according to reports that the General Manager shall submit to it on its demand;
- (5) approving the internal audit system and the internal enforcement plan;
- (5a) appointing an Internal Auditor according to the Audit Committee's recommendation, as said in section 20A(a), approving his work program according to the Audit Committee's recommendation and also discussing faults that are substantive for the operation of the Fund Manager and ways of correcting them;
- (5b) discussing the degree, to which the Fund Manager meets the conditions of the approval to act as Fund Manager, as prescribed in section 13;
- (6) discussing any transaction that the Minister of Finance determined in regulations to be of a category of transactions that are substantive for a fund, or that is of a category of transactions in which conflicts of interest are liable to exist; for this purpose – "**substantive transaction**" – because of its size in relation to the size of the fund, because of the risk involved or because of the type of asset that is the subject of the transaction;
"**conflict of interests**" – between the interest of the unit holders and that of one or several of the following: unit holders in another fund managed by the Fund Manager, the Fund Manager, a person employed by the Fund Manager, anybody with an interest in any of them and a company controlled by an aforesaid interested party;
- (7) discussing any transaction that the Trustee decided, under section 78(b), is

- substantive for the fund or that involves a conflict of interests;
- (7a) discussing an off Stock Exchange transaction or an off organized market transaction, in respect of which the Minister of Finance prescribed that it belongs to a category of transactions that must be discussed;
 - (8) prescribing procedures intended to assure –
 - (a) an orderly decision making process in connection with the fund's investments;
 - (b) performance of internal audits of the management of investments;
 - (c) management of the funds under the Fund Manager's management, while avoiding discrimination between them;
 - (d) management of the fund's risks according to the policy that was adopted;
 - (e) proper management of the work of the Board of Directors and of its committees;
 - (f) preparation for emergencies and assurance of business continuity;
 - (9) prescribing a procedure for contracting with a trading company, as said in section 69(a), and also discussing whether to contract with the trading company by means of a tender, as said in section 69(b), or without a tender, as said in section 69(d);
 - (10) discussing any subject of substantive importance for the Fund Manager's activity or for supervision and control thereof.

Board of Directors Committees

- 19. (a) A Fund Manager's Board of Directors may delegate its powers – except those under section 18(1) to (5b) – to a committee, a majority of the members of which are Directors, including an outside Director, and the members of which may also include persons who are not Directors (hereafter: Board of Directors Committee).
 - (a1) A Fund Manager's Board of Directors shall determine the composition of Board of Directors Committees so that they will enable the Board of Directors Committee to achieve their purpose.
 - (b) A Fund Manager's Board of Directors may delegate its powers as specified below:
 - (1) under section 18(6), (7), (7a) and (9) to the Audit Committee or to a Board of Directors Committee that it set up specifically for that purpose;
 - (2) under section 18(5) – to the Audit Committee, provided it receive from the Audit Committee updates of any decision it adopts under the said paragraph that is of substantive importance for the Fund Manager's operation immediately

after its adoption, and that it also receive from the Audit Committee at least once a year a survey of the subjects enumerated in that paragraph.

- (c) The quorum at Board of Directors Committee meetings shall consist of at least three members, including an outside Director; if the outside Director, who is a member of the committee, is unable to attend a meeting, another outside Director may take his place at that meeting.
- (d) At Board of Directors Committee meetings minutes shall be kept, listing the names of those present, the main points of the discussion and the decisions adopted; the minutes shall be available for inspection by every Director of the Fund Manager.

Investment Committee

- 20. (a) A Fund Manager's Board of Directors shall appoint a Board of Directors Committee on investments (hereafter: Investment Committee).
- (b) The functions of the Investment Committee shall include:
 - (1) to prescribe how the fund shall operate within the bounds of the investment policy that the Board of Directors prescribed;
 - (2) to guide the General Manager in the implementation of the fund's investment policy according to Board of Directors decisions and its own decisions.
- (b1) The number of members of an Fund Manager's Investment Committee, who also serve as Investment Committee members of another investment management company, shall not exceed two thirds of the total number of members of the Fund Manager's Investment Committee.
- (b2) A member of a Fund Manager's Investment Committee shall not, at any one time, serve as Investment Committee member of more than two additional investment management companies.
- (c) Investment Committee meetings shall take place at least once a month.
- (d) Without derogating from the provisions of section 19(c), the number of Investment Committee members present at a meeting, who also serve as Investment Committee members of another investment management company, shall not exceed two thirds of all Investment Committee members present at that meeting.

Audit Committee

- 20A. (a) A Fund Manager's Board of Directors shall appoint an Audit Committee from among its members (n this Law: Audit Committee).
- (b) The responsibilities of the Audit Committee shall be –
- (1) to propose to the Board of Directors a candidate for the position of internal auditor, to discuss the work program proposed to it by the internal auditor and to submit its recommendations in respect of the program to the Board of Directors;
 - (2) to identify faults in the Fund Manager's activity through the internal auditor and other means of control and supervision, to prescribe ways for correction of the said faults that are not of substantive importance for the Fund Manager's activity and to propose to the Board of Directors ways for the correction of said faults that are of substantive importance for its activity;
 - (3) to examine the Fund Manager's internal audit system and how the internal auditor functions, and also whether he has the resources and implements needed for the exercise of his responsibility;
 - (4) to decide whether to approve those activities of the Fund Manager, in respect of which the Minister of Finance prescribed in regulations that they require the Committee's approval;
 - (5) to discuss contracting with a trading company by way of a tender, as said in section 69(b), or without a tender, as said in section 69(d).
- (c) The number of Audit Committee members shall not be less than three, all outside Director shall be members thereof and they shall be a majority of its members; the Committee's chairman shall be an outside Director.
- (d) The chairman of the Fund Manager's Board of Directors and any Director who is employed by the Fund Manager or regularly provides services to it, as well as controlling members of the Fund Manager and their relatives shall not be members of the Audit Committee.
- (e) The internal auditor shall be informed of Audit Committee meetings and he may participate in them.
- (f) The internal auditor may require the Audit Committee chairman to convene the Committee for discussion of a subject he specified in his demand and the Audit Committee chairman shall convene it within a reasonable time after the demand, if he agreed that there is a reason for doing so.

- (g) At least once a year the Audit Committee shall hold a meeting with the internal auditor alone.
- (h) Audit Committee meetings shall be held at least once every quarter; the interval between one meeting and the next shall not be longer than four months.
- (i) The quorum for Audit Committee meetings shall be at least three members, including an outside Director; however, in an urgent case in which one Director is not able to participate in the Audit Committee meeting and consequently there is no quorum at the Committee meeting, the quorum at that meeting shall be at least two members, including an outside Director; the minutes of a said meeting shall include an explanation of the urgency of the meeting.
- (j) At Audit Committee meetings minutes shall be kept and in them shall be recorded the names of those present, the main points of the discussion and the decisions that were adopted; the minutes shall be available to be read by every Director of the Fund Manager.

Personal restrictions on Directors and employees of a Fund Manager

21. (a) A Director of a Fund Manager or a member of the Investment Committee –
- (1) shall not buy and sell any security traded on an Exchange, except in the course of trading on the Stock Exchange according to a written order that he gave at least one day before the purchase or sale is carried out;
 - (2) shall give the orders said in paragraph (1) only through one Stock Exchange member; if that Stock Exchange member has more than one branch, he shall give his orders at only one branch, at which his securities account shall be managed.
- (b) The Minister of Finance may – by regulations – prescribe additional conditions, under which the Director of a Fund Manager or an Investment Committee member may buy and sell securities traded on an Exchange, including by means of a blind trust; in this Law, "**blind trust**" – the management of a securities portfolio by a Trustee for another person, at the Trustee's sole discretion and under rules prescribed by the Minister of Finance.
- (c) An employee of a Fund Manager –
- (1) shall not buy securities, except of categories and on conditions that the Minister of Finance prescribed in regulations, either generally or for Fund Manager employees in specific positions, including by means of a blind trust;

- (2) shall inform the Trustee of one of the funds managed by the Fund Manager within seven days after his employment begins of the securities he or his spouse holds; he shall also inform him within seven days of any security he bought or sold otherwise than by way of a blind trust; the Trustee shall keep all documents that relate to this matter for a period of at least seven years.
- (d) The provisions of subsection (c) –
 - (1) shall also apply to Investment Committee members and to persons employed by the Fund Manager, who participate in the adoption of decisions that concern certain securities;
 - (2) shall not apply to Fund Manager employees, to Investment Committee members and to persons employed by a Fund Manager who are not Israel residents and who only participate in the adoption of decisions that concern foreign securities issued by companies not registered in Israel.
- (e) For the purposes of this section, "**Director**", "**Investment Committee member**", "**person employed by a Fund Manager**" and "**employee**" – including the spouse of each of these.

Article Five: Restrictions on Holding Office or Employment

Restrictions on employment

22. (a) A Fund Manager shall not employ in a position that involves making decisions on the management of the investment portfolio of a fund that it manages –
- (1) an individual employed in a position that involves making decisions on the management of the investment portfolio of a fund managed by another Fund Manager;
 - (2) an individual who participates in managing the investment portfolio of a Fund Manager or a body corporate, if it – or its employee – participates in the management of the said investment portfolio.

Convicted or indicted person

23. (a) If an indictment for a heinous offense has been filed against a Director or Trustee of a Fund Manager, against an employee of any of these or against a member of the

Fund Manager's Investment Committee, or if he was convicted of the offense, the Authority may suspend him from his function or position, if that was requested by the Attorney General or by the Authority Chairman, on condition that that person be given an appropriate opportunity to present his arguments before the Authority; for this purpose, "**offense**" – as defined in section 9A, mutatis mutandis..

(b) *Repealed*

(c) For purposes of this section, the Director of a company that controls a Fund Manager the Directors of which serve on the Fund Manager's Board of Directors and constitute its majority, shall be deemed a Director of the Fund Manager, and the Director of company that controls a Trustee, the Directors of which serve on the Trustee's Board of Directors and constitute its majority shall be deemed a Director of the Trustee.

(d) *Repealed*

CHAPTER TWO "A": CONTROL AND HOLDING MEANS OF CONTROL IN A FUND MANAGER AND RESTRICTION OF THE MARKET SHARE

Definitions

23A. In this Chapter –

"**total market share**" – the total market share of the Fund Managers controlled by certain person, and in respect of whoever controls a Fund Manager together with others, the Fund Manager's entire market share shall be taken to pertain to each of the partners separately;

"**market share**" of Fund Manager – the ratio of the net value of fund assets managed by that Fund Manager to the total net value of the assets of all funds managed by all Fund Managers in Israel, calculated according to rules prescribed by the Authority and published in the Official Government Gazette;

"**offense**" – as defined in section 9A, mutatis mutandis.

Control and holding means of control in a Fund Manager

23B. (a) A person shall not hold more than 30% of a certain category of means of control in a Fund Manager, or a lower percentage that gives control of the Fund Manager, except under a permit from the Licensing Committee; the Minister of Finance may, by order in consultation with the Authority, prescribe a rate lower than 30%, on

condition that it is not less than 5%.

- (b) The Licensing Committee may refrain from issuing a permit under this section only because of reasons connected to the reliability of the permit applicant or of one of its officers.
- (c) A person shall not be given a permit under this section if – after the permit is given – his total market share will exceed 20%.
- (d) The provisions of subsection (a) shall not apply to whoever holds means of control by virtue of a transfer by action of Law.
- (e) The provisions of this section shall also apply to holding means of control in a Fund Manager as collateral for a debt, except for aforesaid means of control that in good faith are intended to be used as collateral for an obligation toward a banking corporation and the amount in any client's securities account does not exceed 0.001% of that kind of means of control.

Obligation to inform the Authority of any fault in reliability

23B1. If one of the circumstances specified below applies to whoever holds means of control in a Fund Manager to the extent that requires a permit under section 23B or to its officer, the holder shall so inform the Authority immediately after he learned thereof:

- (1) one of the circumstances specified in paragraphs (1) to (6) in section 9A(a);
- (2) in respect of a holder that is a body corporate – a liquidation order was made or a receiver was appointed for its assets or for a substantial part thereof because a debt was not paid, and in respect of a holder who is an individual – a receivership order in bankruptcy proceedings was made against him or he was declared legally incompetent.

Prohibition against a significant real body corporate controlling and holding means of control in a Fund Manager that is a significant financial body

23B2. (a) In this section –

"**financial body**" and "**real body corporate**" – as defined in section 28 of the Law to Promote Competition and Reduce Concentration;.

"**significant financial body**" – a financial body for which one of these holds true:

- (1) it is listed in the list of significant financial bodies;
- (2) the provisions of section 29(a)(1) of the Law to Promote Competition and

Reduce Concentration apply to it, even if it is not listed in the list of significant financial bodies;

"list of significant financial bodies" – the list of significant financial bodies published under section 29 of the Law to Promote Competition and Reduce Concentration;

"list of significant real bodies corporate" – the list of significant real bodies corporate published under section 30 of the Law to Promote Competition and Reduce Concentration;

"control" of a real body corporate – also the holder of a controlling parcel, as defined in the Companies Law, in a real body corporate that does not have any other controlling member;

"significant real body corporate" – a real body corporate for which one of these holds true:

- (1) it is listed in the list of significant real bodies corporate;
- (2) the provisions of section 30(a)(1) of the Law to Promote Competition and Reduce Concentration apply to it, even if it is not listed in the list of significant real bodies corporate; however, for this matter the authority vested in the Controller of Restrictive Business Practices in the closing passage of the definition of "determining sales turnover" in section 30(e) of the said Law shall be vested in the Authority Chairman;
- (3) the provisions of section 30(a)(2) of the Law to Promote Competition and Reduce Concentration apply to it, even if it is not listed in the list of significant real bodies; however, for this matter the authority vested in the Business Concentration Reduction Committee in the closing passage of the definition of "determining credit" in section 30(e) of the said Law shall be vested in the Authority Chairman.

- (b) A significant real body corporate or whoever controls it shall not control a Fund Manager that is a significant financial body and shall not hold more than 10% of a certain kind of means of control in a said Fund Manager; the Minister of Finance may, on a proposal by the Authority or in consultation with it, set a percentage smaller than 10% for the purposes of this subsection, provided it is not less than 5%; when determining the said percentage is being determined, the structure of the trust funds industry shall, inter alia, be taken into consideration.
- (c) Whoever holds more than 5% of a certain kind of means of control in a significant

real body corporate (in this section: the holder) – shall not control a Fund Manager that is a significant financial body; in respect of the percentage of a said holder's holding the holdings of the Fund Manager, of financial bodies that control it or are controlled by it or of other financial bodies controlled by the holder shall not be counted; for purposes of the calculation of the determining sales turnover and of the determining credit of the real body corporate under section 30 of the Law to Promote Competition and Reduce Concentration, a real body corporate that is not the holder or a body corporate that is not a real body corporate in which the holder holds more than 5% of the means of control or a body corporate that is not a body corporate controlled by a said body corporate shall not be taken into account.

- (d) If a significant real body corporate or whoever controls it controls a Fund Manager that is a significant financial body or holds means of control in a said Fund Manager, or if the holder of means of control in a significant real body corporate controls a Fund Manager that is a significant financial body in violation of the provisions of this section, he shall sell the means of control that he holds, so that he will not hold means of control of any kind in excess of what he is allowed to hold under this section, and the Authority Chairman may issue orders on this matter, including orders as said in paragraphs (1) to (4) of section 23E(a), *mutatis mutandis*; the provisions of section 23E(d) and (e) shall apply to this matter, *mutatis mutandis*; if the Authority Chairman issued orders under this subsection, he shall send a notice to that effect also to the Fund Manager.
- (e) Without derogating from the Authority Chairman's authority to demand information under this Law, for the implementation of this section he may –
 - (1) demand from whoever controls or holds means of control in a Fund Manager in excess of the percentages said in subsections (b) or (c) or from whoever applies for a permit under section 23B information about the value of all his assets and of the assets of every person whose assets are taken into account for the designation of a financial body as a significant financial body; for this purpose, "**value of all the assets**" – as defined in section 29(d) of the Law to Promote Competition and Reduce Concentration;
 - (2) demand from whoever controls or holds means of control in a Fund Manager that is a significant financial body in excess of the percentages said in subsections (b) or (c), or from whoever applies for a permit under section 23B to hold or to control a Fund Manager as aforesaid, information on his sales and

credit data and on those of any person whose determining sales turnover or determining credit are taken into account for the determination that a real body corporate is a significant real body corporate, provided that the Authority Chairman not ask under this section for information about credit received by an individual, except after he asked for information about credit received by the concerned bodies corporate and concluded that that information and other information in his possession does not suffice for implementation of this section; for this purpose, "**credit**", "**determining credit**" and "**determining sales turnover**" – as defined in section 30(e) of the Law to Promote Competition and Reduce Concentration.

Transfer of means of control

23C. Whoever holds means of control in a Fund Manager shall not transfer them to another, knowing that the transferee needs a permit under section 23B and does not have a said permit.

Cancellation, change or suspension of a permit

- 23D. (a) If the Authority Chairman concluded that a substantive permit condition ceased to apply to a permit holder, that he violated a said condition or that there are circumstances enumerated in a list under subsection (b) in evidence of a fault in the reliability of the permit holder or of one of its officers and if he believes that the fault can be corrected, he may order that it be corrected within a period that he shall set; if the fault cannot be corrected or if the period that the Chairman set has passed and the fault was not corrected, the Licensing Committee may – after gave the permit holder an opportunity to present its arguments – suspend, change or cancel by a reasoned written decision the permit that he had been given under section 23B.
- (b) The Authority shall make a list of circumstances that evidence a fault in the reliability of a control permit holder under section 23B or of its officer; a said list shall be posted on the Authority's Internet site and shall go into effect 30 days after it was posted, but a change in the list shall not apply to a proceeding pending under this section; notice that the list was posted, of every change thereof and of the date of their effect shall be published in the Official Government Gazette.

Orders from the Authority Chairman to whoever acted without

a license

- 23E. (a) If the Authority Chairman concludes that a person holds means of control in a Fund Manager without a license said in section 23B, he may – after he has given that person an opportunity to present his arguments – order –
- (1) that all or some of the means of control held by that person be sold within a period that he shall prescribe, so that he will not hold means of control of any kind in excess of what under section 23B he is allowed to hold without a license;
 - (2) that the voting rights or the right to appoint directors by virtue of the means of control held by that person without a license under section 23B not be exercised;
 - (3) that a vote by virtue of means of control held by that person without a license under section 23B not be taken into account at that vote;
 - (4) that the appointment of a director, brought about by that person, be voided.
- (b) If a person holds means of control in a Fund Manager by virtue of a transfer by action of Law, in an amount that requires a license under section 23B, the Licenses Committee may – after it has given the holder an opportunity to present his arguments – order him to sell all or some of the said means of control within a period that it shall prescribe, so that he will not hold means of control of any kind in excess of what he is allowed to hold without a license under section 23B.
- (c) If the Licenses Committee ordered under the provisions of subsection (b) that means of control be sold, it may make an order as said in subsection (a)(2) to (4), *mutatis mutandis*.
- (d) If the holder did not sell the means of control according to the Authority Chairman's order under subsection (a) or according to an order from the Licenses Committee under subsection (b), the Court may – at the Authority's petition – appoint a receiver for the sale of the said means of control.
- (e) A Fund Manager shall do his utmost to prevent any person from acting by virtue of means of control held in violation of the provisions of section 23B.

Reporting holdings of means of control

- 23F. (a) A person who holds any kind of means of control in a Fund Manager in a quantity that exceeds 20% or the percentage the Minister of Finance prescribed under section 23B(a), whichever is lower, shall deliver to the Fund Manager on April 1 of each

year and at other times to be prescribed by the Authority Chairman a report of his said holdings of means of control and of other particulars, as the Authority Chairman will prescribe, including the following particulars:

- (1) in respect of a holder that is a body corporate – its controlling members and also all person who hold 5% or more of any kind of means of control in it;
 - (2) the person on whose behalf the holder acts as agent or trustee.
- (b) The Authority Chairman may prescribe that a holder of means of control who is obligated to report under this section shall also deliver the report directly to the Authority Chairman.
- (c) The provisions of this section shall also apply to whoever holds means of control in a Fund Manager as collateral for a debt, other than a said holder that is a banking corporation.

Restriction on market share

- 23G. (a) A Fund Manager shall not accept a fund from another Fund Manager in order to manage it, neither by agreement nor in any other manner, if after he accepted it for management his market share is greater than 20%.
- (b) A person shall not control Fund Managers so that his total market share comes to exceed 20%, because one of the managers of funds under his control accepted management of a fund from another Fund Manager.
- (c) If the Authority Chairman concludes that a Fund Manager accepted management of a fund from another Fund Manager, and that after he accepted it his market share or the total market share of the person who controls him increased to more than 20%, he may – after he gave the Fund Manager and the Trustee or that person, as the case may be, an opportunity to present his arguments – order him to reduce the market share or the total market share, as the case may be, so that it will not exceed 20%, all within a period he shall prescribe.
- (d) If the period set by the Authority Chairman under subsection (c) passed and the Fund Manager or the person who was given orders under that subsection did not act according to them, the Court may – at the Authority's request – order him to reduce the market share or the total market share, as the case may be, so that it will not exceed 20%, all within a period that it shall prescribe.

23H. Repealed

**CHAPTER THREE: PROSPECTUS OF A FUND AND
PERMISSION TO PUBLISH IT**

24. Repealed

Offering units under prospectus

25. (a) A public offering of units, shall be by a prospectus, that the Authority permitted to be published.
- (b) Subsection (a) shall not apply to:
- (1) the allocation of bonus units, as said in section 58;
 - (2) an offering of units in a closed fund in the course of trading them on an Exchange.
 - (3) an offering of units to investors, the number of which does not exceed the number prescribed in regulations under section 15A(a)(1) of the Securities Law, and solely if the number of investors to which the offeror will sell units by a said offering or sale, together with the number of investors to whom it sold units during the 12 months preceding that offering or sale does not exceed the prescribed number; in the investor count for this purpose, investors stipulated in section 15A(b)(1) of the said law shall not be taken into account.
- (c) The Authority may exempt from the application of subsection (a) –
- (1) offerings of units in a closed fund by a liquidator, receiver, estate administrator or guardian; when a said exemption has been granted, the procedure for offering the units shall be prescribed by the Court that deals with the liquidation, receivership, estate or guardianship, as the case may be;
 - (2) an offeror of units in a closed fund who is not a Fund Manager, on terms that it shall prescribe.
- (d) *repealed.*

Particulars of prospectus

26. (a) The prospectus of a fund shall include every particular, the inclusion of which there the Minister of Finance prescribed in regulations and also every particular likely to

be important for a reasonable investor who considers acquiring the units offered according to it.

- (b) *repealed.*
- (c) Regulations under subsection (a) may, inter alia, relate to the following matters:
 - (1) the structure and form of the prospectus;
 - (2) the fund's financial reports, the degree to which they shall be detailed and the bookkeeping principles according to which they shall be drawn up;
 - (3) subjects and particulars to which the auditor's opinion on the reports said in paragraph (2) shall relate and the form of the opinion.
- (d) *repealed.*
- (e) *repealed.*
- (f) *repealed.*

Instructions by the Authority on particulars of a prospectus

27. (a) The Authority may instruct a Fund Manager to include the matters enumerated below in the fund's prospectus, if it believes that under the circumstances of the case they are important for a reasonable investor who considers acquisition of the offered units:
- (1) any particular in addition to the particulars in the prospectus and any detail in addition to the details required under section 26;
 - (2) a report or opinion of an expert on any matter connected to any particular in the prospectus;
 - (3) any other report or opinion, in addition to the reports and opinions included in the prospectus;
 - (4) financial reports, an opinion or survey by an auditor who audited or surveyed them or by another auditor, instead of those presented in the prospectus, if it believes that they were not drawn up according to accepted bookkeeping and reporting principles and that they do not reflect properly the state of the Fund's business, all on condition that the Fund Manager was given an appropriate opportunity to present his argument.
- (b) The Authority may instruct a Fund Manager to give special emphasis – in a manner that it shall prescribe – to any particular in the prospectus.
- (c) *repealed*

Must provide explanations

28. A Fund Manager must deliver to the Authority in writing – on demand by the Authority Chairman or by another employee whom he so authorized – an explanation, particulars, information and documents in connection with the prospectus and the particulars included in it, within a period that they shall set.

Permission to publish a prospectus

29. (a) (1) The Authority, with approval by the Minister of Finance, shall prescribe procedures for examination of the prospectus of a fund, generally or by categories of funds, and they shall be published in the Official Government Gazette.
- (2) The Authority shall inform the Knesset Finance Committee of the examination procedures approved by the Minister of Finance and they shall be published in the Official Government Gazette 14 days after the information was delivered, if until then no member of the Knesset Finance Committee demanded that they be canceled; if a said demand was made, the committee shall discuss it and the examination procedures shall be published 30 days after the day of the demand, unless the committee canceled them.
- (b) The Authority shall give a permit to publish a prospectus, if it is satisfied that the provisions of this Law and the Authority's instructions thereunder have been complied with and that all the permits that must be obtained under any statute before publication of a prospectus have been issued; for this purpose, the Authority may use an examination procedure it deems appropriate from among the examination procedures prescribed under subsection (a).
- (b1) (1) Notwithstanding the provisions of subsection (b), the Authority may – after it gives the Fund Manager an opportunity to state its case – refuse to issue a permit for the publication of a prospectus on grounds for which the Authority Chairman may instruct the correction of a defect, as stipulated in section 15(a) or under circumstances, which warrant the Authority's petitioning the Court for the fund's liquidation, as stipulated in section 104(a).
- (2) If the Authority finds – after it gave the Fund Manager an opportunity to argue its case – that there are grounds as mentioned in paragraph (1) and is of the opinion that the defect can be corrected, it shall instruct that it be corrected within a set period ; if the defect was not corrected to the Authority's

satisfaction, the Authority shall inform the Fund Manager at the earliest opportunity by a reasoned notice of its refusal to issue a permit for publication of a prospectus.

- (c) The Authority's permission does not constitute verification of the particulars presented in the prospectus, certification of their credibility or completeness or the expression of an opinion on the quality of the offered units.
- (d) The text of subsection (c) shall appear verbatim in the prospectus.
- (e) The procedure for handling applications for permission to publish the prospectus of a fund – generally or by categories of funds – shall be set by the Authority with approval by the Minister of Finance and it shall be published in the Official Government Gazette.
- (f) *repealed.*

Approval and signing of the prospectus

30. (a) The draft prospectus of a fund that is submitted to the Authority shall be signed by the Trustee and the Fund Manager.
- (b) The prospectus of a fund, submitted to the Authority in order to obtain approval for its publication, shall be signed by the Trustee, the Fund Manager and all members of the Fund Manager's Board of Directors; however, if the Fund Manager's Board of Directors approved the prospectus, the signature of the Trustee, of the Fund Manager and of a majority the Fund Manager's Directors shall suffice, including at least one outside Director.
- (c) If a prospectus includes the name of a person who undertook to acquire all or some of the units offered by a closed fund, if they are not acquired by the public, he also shall sign the prospectus.
- (d) If units of a closed fund are offered by a person other than the Fund Manager, the offeror shall also sign the prospectus.
- (e) A Director's signature on a prospectus shall be affixed by him in person or by a person to whom he gave written authorization to sign that prospectus in his name.
- (f) The provisions of section 22(e) and (f) of the Securities Law shall apply to the prospectus of every fund, and in respect of the prospectus of a closed fund the provisions of section 22(c) and (d) of the said Law shall also apply.

Date and publication of prospectus

31. (a) A prospectus shall bear a date (hereafter: date of prospectus) that shall state when the prospectus goes into effect and that shall not be later than fifteen days after the permit for its publication was issued, except if the Authority extended the said period.
- (b) Not later than on the first business day after the date of prospectus the Fund Manager shall publish the prospectus by filing an electronic report under Chapter Seven "A" of the Securities Law, as well as an announcement in a newspaper that the prospectus has been posted on the distribution site and where orders for the offered units may be placed; in the said notice shall also be published the front cover of the prospectus, within its meaning in regulations issued under sections 26(a) and (c) and 131(a); the Authority may order that additional particulars be included in the announcement in a manner that it shall prescribe.
- (c) A Fund Manager shall not publish a prospectus, except if he holds a permit for its publication from the Authority and he shall not offer the units to the public, except after he complied with the provisions of subsection (b).

CHAPTER FOUR: ORDERS ACCORDING TO A PROSPECTUS, AMENDING THE PROSPECTUS AND CHANGES IN IT

Period for the submission of orders

32. (a) The following provisions shall apply in respect of the period during which orders for units offered by a prospectus (hereafter: the period) may be submitted:
- (1) in an open fund that offers its units to the public for the first time the period shall begin seven days after the date of the prospectus and it shall end not later than twelve months after the said date;
 - (2) in an open fund, units of which already are held by the public, the period may begin on the date of the prospectus, on condition that it end not later than twelve months after the said date;
 - (3) in an closed fund the period shall begin seven days after the date of the prospectus and it shall end not later than one month after the said date.
- (b) The Authority Chairman may – on the Fund Manager's request – allow the period under subsection (a)(1) to begin earlier and he may extend the one month period

under subsection (a)(3) to up to six months, if he concluded that there are conditions that justify doing so and that on conditions that he will prescribe..

- (c) Units shall not be offered to the public before the beginning or after the end of the period.

Delivering the prospectus

33. *repealed.*

Fund Manager's report

- 34. (a) The manager of an open fund shall deliver – to the Authority and to the Stock Exchange – a report on the correction of any misleading particular in the prospectus of a fund under his management immediately after he became aware of the existence of the misleading particular and he shall immediately publish the report in newspapers.
- (b) If the Authority finds that anything that is likely to be important for a reasonable investor who considers the acquisition or redemption of a unit is not included in a prospectus, that a misleading particular was included in a prospectus that was published or that something occurred that is likely to be important for a reasonable investor who considers the acquisition or redemption of a unit, and if the Fund Manager did not submit a report thereon or did not publish it in a newspaper, it or an employee authorized by it for this purpose may order the Fund Manager – after he was given appropriate opportunity to present his arguments – to submit a report thereon within a period prescribed by them and to publish it immediately in a newspaper; submission of the report and its publication in a newspaper shall not derogate from any statutory liability.
- (c) *repealed*

Amendment of the prospectus of a closed fund

- 35. (a) The provisions of sections 25, 25A, 25B and 26(a) of the Securities Law shall apply, mutatis mutandis, to the prospectus of a closed fund and to the manager of a closed fund.
- (b) *repealed*

Correction of clerical errors in a prospectus

36. The provisions of section 25C of the Securities Law shall apply, mutatis mutandis, to the correction of a clerical error in a prospectus.

CHAPTER FIVE: LIABILITY FOR A PROSPECTUS

Liability of signatories to a prospectus

37. (a) Whoever signed a prospectus under section 30 is liable toward any person who acquired or redeemed units and toward any person who bought or sold units of a closed fund in the course of trading on or off a Stock Exchange for damage caused them because there was a misleading particular in the prospectus.
- (b) The prescription period for the right to claim under subsection (a), in respect of which no action was brought, is two years after the day of the transaction or seven years after the date of prospectus, whichever comes first.
- (c) For the purposes of subsection (a), a Director of the Fund Manager who served in office on the day on which the Board of Directors approved the prospectus is deemed to have signed the prospectus, except if he proves one of the following:
- (1) that he did not know of the publication of the prospectus, that he was not obligated to know of it or that he could not have known of it;
 - (2) that immediately after he became aware that there is a misleading particular in the prospectus, he delivered a written reasoned notice thereof to the Authority and to the Fund Manager.
- (d) The provisions of subsection (c) shall not derogate from the provisions of section 39.

Liability of experts

38. Whoever delivered an opinion, report, survey or certification that with his prior consent was included or mentioned in a prospectus is liable as said in section 37(a) for any damage caused because there was a misleading particular in the opinion, report, survey or certification that he delivered, and the prescription period for purposes of this section shall be as said in section 37(b).

Negation of liability

39. Liability under sections 37 and 38 shall not apply –

- (1) to a person who proved that he took all appropriate steps in order to ascertain that there be no misleading particular in the prospectus, opinion, report or certification, as the case may be, and that he believed in good faith that they include no misleading particular;
- (2) toward a person, in respect of whom it was proven that he acquired, redeemed, bought or sold units as said in section 37(a) while he knew or should have known that there is a misleading particular in the prospectus, opinion, report or certification, as the case may be;
- (3) when the Fund Manager has submitted a report to the Authority and to the Stock Exchange, in which the misleading particular is corrected, and published the said report in a newspaper, all in respect of a person of whom it was proven that he acquired, redeemed, bought or sold units as said in section 37(a) after the said publication in a newspaper;
- (4) to a person who signed the prospectus under section 30, to a person deemed to have signed the prospectus under section 37(c) and to a person who gave an opinion, report or certification as said in section 38, when 24 hours have passed since he delivered notice of the correction of the misleading particular to the Fund Manager.

Multiple liabilities

40. If two or more persons are liable under sections 37 or 38, they shall be liable jointly and severally toward whoever suffered damage and the principles that apply to torts shall apply to the mutual liability between them.

41. (*repealed*)

CHAPTER SIX: MANAGEMENT OF THE FUND

Article One: Open fund

Unit price and redemption price

42. (a) The price of a unit in an open fund shall be:
- (1) on the first day on which the units are first offered – a price equal to the unit's nominal value;
 - (2) at any other time – a price equal at that time to the acquisition price of the fund's assets according to section 43, divided by the number of its units.
- (b) The redemption price of a unit in an open fund shall at any time be equal to the sale price at that time of the fund's assets according to section 43, divided by the number of its units.
- (c) The manager of an open fund may add to the unit price or deduct from the redemption price an amount, the rate and manner of its collection being prescribed in the prospectus (hereafter: addition); the addition constitutes part of the Fund Manager's remuneration and shall not be transferred to the fund's accounts.
- (d) The commission a distributor collects from the purchaser of a unit, from whoever redeems a unit or from a unit holder for keeping the unit with the distributor, shall not vary because the units he sold or redeemed or that were kept with him were issued by different Fund Managers, unless specifically permitted under subsection (e) and subject to the conditions placed on this permission ; the amount of commission for aforesaid acts shall be displayed in the distributor's office in a clearly visible place.
- (d1) Distributors shall – at the earliest opportunity and in writing – inform any person from whom an addition or commission was collected for a unit's sale, redemption or safekeeping of the rate of the collected addition or commission.
- (d2) In this section, "**rate of commission**" – the commission collected, divided by the unit price or the redemption price, as the case may be.
- (e) The Minister of Finance may prescribe in regulations how and when unit prices and redemption prices are to be published by the manager of an open fund, and he may also prescribe – on the Authority's proposal or after consultation with it, and with approval by the Knesset Finance Committee, generally or by categories of funds or distributors – conditions under which distributors may collect commission from the purchaser of a unit, provisions on the maximum rate of the said commission and how

it is to be calculated.

Acquisition and sale prices of an open fund's assets

43. (a) The acquisition and sale prices of an open fund's assets shall be calculated by the Fund Manager according to the net value of the fund's assets.
- (b) The Minister of Finance may, in regulations, prescribe provisions how the value of an open fund's assets is to be determined and how the acquisition and sale prices of the fund's assets are to be calculated.

Ordering units, ordering their redemption and payment for them

44. (a) Orders for units offered by prospectus and instructions for their redemption shall be transmitted to the distributor; a distributor shall not refuse – for reasons connected to the fund or the Fund Manager – to distribute units of a fund offered by a prospectus, publication of which the Authority permitted.
- (b) The distributor shall transmit to the Fund Manager – through the Stock Exchange Clearing House (hereafter: the Clearing House) – the total of orders for units that he received and the total of instructions for the redemption of units that he received, orders for units separately and instructions for redemption separately, all in the manner prescribed by the Minister of Finance.
- (c) A Fund Manager shall only accept cash payment for units of a fund under his management; if units of a fund were acquired by a certain person and the Fund Manager acquired securities for the fund under his management from the same person in an off Stock Exchange transaction or in an agreed transaction during a 30 day period, the assumption is that the two acquisitions were part of a single transaction in which the Fund Manager received payment for the fund units not in cash, except if it was proven differently.

Transmitting cash to the fund

45. When a unit of an open fund has been sold, the distributor shall transfer through the Clearing House a cash amount equal to the unit price to the account of the Fund Manager or of the fund in the manner prescribed by the Minister of Finance; if the amount was transferred to the Fund Manager's account, he shall transfer it to the fund' account on the same day.

Offer of shares and their redemption

46. (a) The Manager of an open fund shall sell and redeem units only on days, in respect of which he must calculate the acquisition and sale prices of the fund's assets, and in respect of a fixed date fund within its meaning in section 47(a) – on the dates set according to the provisions of that section.
- (b) The Manager of an open fund shall redeem a unit according to instructions received from the distributor; when the Manager of an open fund received instructions to redeem a unit, he shall cancel the unit and transfer – from the account of the fund to the distributor, through the Clearing House in a manner prescribed by the Minister of Finance – a cash amount equal to the redemption price of the redeemed unit and the distributor shall transfer the said amount to the unit holder on the same day; if the fund agreement provides that the addition be deducted from the redemption price, the Fund Manager shall transfer the aforesaid amount, less the amount of the addition, to the distributor and the distributor to the unit holder,
- (c) (1) A distributor, who received an order for a unit or instructions for the redemption of a unit before the time stated in the prospectus and set according to rules prescribed therefor by the Clearing House after consultation with the Authority (hereafter: the set time) on a day in respect of which the sale price must be calculated, he shall transmit it to the Clearing House on the same day up to the set time or during a period set by the Clearing House in the said rules; if a said order or instruction was received on any other day or after the set time, the distributor shall transmit it before the set time on the next day on which the sale price must be calculated;
- (2) if the Clearing House received an order for the acquisition or instructions for the redemption of a unit as said in paragraph (1), the Clearing House shall transmit it to the Fund Manager on the same day within the period set by the Clearing House in rules said in subsection (i);
- (3) if the distributor or the Clearing House did not transmit an order for the acquisition or instructions for the redemption of a unit as said in paragraphs (1) or (2), they shall be deemed to have been submitted on the day on which the Fund Manager received them, unless they were canceled by the person who placed the order or gave the instructions; however, if he received them after the said time, they shall be deemed to have been submitted before the set time on the first day on which the sale price must be calculated after the day on which

he received them;

- (4) the provisions of paragraph (3) shall not derogate from the right of the person who ordered a unit or gave instructions for its redemption to compensation under any statute for the fact that his order or instruction was not transmitted as said in paragraphs (1) or (2).
- (d) The Minister of Finance may prescribe by regulations, generally or by categories of funds, the day on which a distributor shall transfer the amount said in section 45 and the day on which a Fund Manager shall transfer the amount said in subsection (b) to the distributor.
- (e) The Minister of Finance may prescribe by regulations, generally or for categories of funds, the days in respect of which the Manager of an open fund must calculate the acquisition price and the sale price of the fund's assets.
- (f) The Manager of an open fund may, from time to time, stop offering units to the public and resume doing so, on condition that he published a notice thereof in newspapers at the time the Minister of Finance prescribed in regulations.
- (g)
 - (1) If the net value of an open fund's assets dropped below the minimum value, or if the number of holders of its unit dropped below the minimum number set by the Minister of Finance during 30 consecutive days or on 60 days out of a 90 day period (hereafter: interim period), the Fund Manager must continue to offer its units to the public, and if it is not a fund for foreign residents he shall offer them to all persons, until the net value of its assets and the number of its unit holders reach the minimum amount and the minimum number set by the Minister of Finance; if a prospectus must be published in order to offer shares as aforesaid, the Fund Manager shall publish it not later than 30 days after the end of the interim period;
 - (2) the provisions of paragraph (1) shall not apply if the Fund Manager announced that the fund will be liquidated;
 - (3) for purposes of this subsection, "**offering units to all persons**" – exclusive of foreign citizens or foreign residents who – under the Laws of the country of which they are citizens or in which they live – are not allowed to acquire or hold units of the fund;
- (h) If the number of units ordered on any day exceeds the number of units offered on that day, the Fund Manager shall accept a uniform proportion of all orders; the Fund

Manager shall inform the Clearing House of the said proportion not later than at the end of trading on the Stock Exchange in a manner prescribed by the Minister of Finance.

- (i) The acts of the Clearing House under sections 44, 45, 46(b) and (c)(2) and 53(c) shall be carried out according to rules that the Clearing House shall make and that it shall report to the Authority.

Fixed date fund

- 47. (a) If fixed dates for the offering and redemption of units are prescribed in the fund agreement of an open fund (hereafter: fixed date fund), the following conditions shall obtain:
 - (1) the dates for offering units and for their redemption shall be identical;
 - (2) the dates for offering units and for their redemption shall be on days on which the Fund Manager must calculate the acquisition and sale prices of the fund's assets;
 - (3) the interval between subsequent fixed dates shall not exceed six months.
- (b) *Repealed*

Interrupting the offering and redemption of units

- 48. (a) Notwithstanding the provisions of section 46, the Authority Chairman may –
 - (1) after consultation with the chairman of the Board of Directors of the Stock Exchange in Israel order that the offer and redemption of units in an open fund be interrupted, generally or by categories of funds, for a period of not more than three trading days, if no trading took place or if the results of trading severely undermined the ability to buy or sell securities for a fund or to calculate the acquisition and sale prices of a fund's assets;
 - (2) permit – on a written application from the manager of an open fund with approval by the Trustee – that the redemption of units be interrupted for a period of not more than three trading days, if the Fund Manager is unable to redeem units because of a severe disturbance in the orderly progress of his work or of the work of whoever provides services for the Fund Manager; during an aforesaid period of interruption units shall not be offered to the public;
 - (3) order – after consultation with the Capital Market, Insurance and Savings Commissioner in the Ministry of Finance and after he has given the Fund

Manager and the Trustee an appropriate opportunity to present their arguments – that the offering of units and their redemption in an open fund be interrupted for a period that shall not exceed seven trading days, if he concluded that without an interruption the interest of the unit holders is liable to be injured.

- (b) The Authority Chairman may – with approval by the Minister of Finance – extend the effect of his order under subsection (a)(1), as long as the grounds said there persist, and under subsection (a)(3), for additional periods of not more than seven trading days each, and not more than a total of sixty consecutive days.
- (c) The Authority Chairman shall publish a notice in a newspaper about the use of his authority under this section.
- (d) *repealed*

Restriction on the holding of units by a related party

49. (a) In this section –

"**related party**" – a person the Fund Manager, the Fund Manager's employee, a member of the Fund Manager's Investment Committee, a Director of the Fund Manager, someone employed by the Fund Manager in the management of the fund's investment portfolio, an employee of a person employed as aforesaid and a body corporate controlled by any of these;

"**related fund**" to a related party– a fund managed by a Fund Manager controlled by a related party or in which the related party works, serves or is employed;

"**proportion of held units**" – the number of units of a fund held by a person on any day out of the total of all of the fund's units on the last day before that day.

- (b) If a related party acquired units of a fund that is related to him or if a change occurred in the number of units of a said fund held by a related party the related party shall give the Fund Manager written notice of the acquisition of the units or of the change in the number of units held by it on the day of the acquisition or of the change, as the case may be.
- (c) A related party shall not acquire units of a fund related to it, except if one of the following applies:
 - (1) he received written information from the Fund Manager regarding the total number of fund units on the last day before the day of the units' acquisition, the total percentage of fund units held on the said day by related parties and regarding the fund's net asset value on the said day;

- (2) some part of the fund's units is held by unit holders who are not related parties;
 - (3) the total percentage of fund units held by all the related parties immediately after the acquisition does not exceed 25%.
- (c1) The provisions of subsection (c)(3) shall not apply if, on the last day preceding the day the related fund's units were acquired, net asset value did not exceed three times the minimum value prescribed under section 46(g).
- (d) If the total percentage of fund units held by all related parties exceeds the percentage prescribed in subsection (c)(3), the following provisions shall apply:
- (1) the Fund Manager must continue to offer fund units to the public until the total percentage of fund units held as aforesaid drops to the percentage prescribed in subsection (c)(3);
 - (2) the rate of the addition in respect of the fund shall not exceed the average of the rates of the additions of all the funds managed by the Fund Manager;
 - (3) the rate of the Fund Manager's remuneration shall not exceed the average of the rates of Fund Managers' remunerations from all the funds managed by the Fund Manager; in this paragraph, "**rate of the Fund Manager's remuneration**" – the amount of the Fund Manager's remuneration divided by the average net value of the fund's assets during the period for which the remuneration is paid; for this purpose, the average net value of the fund's assets shall be calculated according to the net value of the fund's assets on each day on which prices are calculated during the period for which the remuneration is paid.

Article Two: Closed fund

Unit price

50. (a) The price of a unit in a closed fund shall be:
- (1) the initial offering – a price set in the prospectus;
 - (2) subsequent offerings – a price to be set by a tender that the Fund Manager shall hold in the manner and according to the terms articulated in the prospectus; if the price set by the tender is lower than the price of the unit on the day on which the outcome of the auction is determined, the offering shall be canceled;

for this purpose, "**price of a unit**" – the purchase price of the fund's assets, divided by the number of units

- (b) The Manager of a closed fund shall calculate the price of a unit in the fund; the Minister of Finance may make provisions in regulations regarding the determination of a closed fund's asset value and the manner of calculating purchase prices and the manner and dates on which a Fund Manager shall publish its price.
- (c) The manager of a closed fund may add to the unit price or subtract from the redemption price an addition within its meaning in section 42(c), the rate and how it is to be collected being prescribed in the prospectus.

Stock Exchange approval for listing a unit

51. A Fund Manager shall not offer units of a closed fund, except after he received the Exchange's approval for listing them for trading.

Report on results of offering

52. The manager of a closed fund shall submit to the Authority and to the Stock Exchange a report on the results of the offering under a prospectus, according to particulars and at the time prescribed by the Minister of Finance in regulations, and he shall publish the report in a newspaper.

Allocation of units and transfer of money

53. (a) On the day on which units in a closed fund are allocated the Fund Manager shall do the following:
- (1) list the fund units for trading on an Exchange;

- (2) allocate the offered units to those who ordered them;
 - (3) transfer to the fund's account a cash amount equal to the price of the units allocated to those who ordered them.
- (b) If the number of units ordered exceeds the number of units offered, the Fund Manager shall allocate the offered units in the manner stated in the prospectus.
 - (c) On the day on which units are allocated, the distributor shall debit the account of whoever ordered units through him by an amount equal to the price of the units allocated to him, and he shall transfer to the account of the Fund Manager – through the Clearing House in the manner prescribed by the Minister of Finance – a cash amount equal to the price of the units allocated to the person who ordered them.
 - (d) For purposes of this section, "**allocation day**" – not later than two days after the end of the period for submitting orders for units in a first offering, or after the day on which the tender said in section 50 was held.

Cancellation of an offering

- 54. (a) If the units of a closed fund were not listed for trading on a Stock Exchange or if during the period set for submitting orders for the units orders were not submitted in a number set in the prospectus as the minimal amount for the offering, the offering shall be canceled.
- (b) At the time the Minister of Finance prescribed in regulations the Fund Manager shall submit to the Authority and to the Stock Exchange a report on the cancellation of the offering and on the reason therefor and he shall publish the report in a newspaper.

Regulations regarding close fund offerings

54A. The Minister of Finance may prescribe additional provisions regarding close fund unit offerings, the details which must be included in a prospectus and details that can be completed at a later date, as well as details regarding offering dates, the number of units offered and the manner in which the offered units are allocated to subscribers; such provisions can be in general, specifically for high-tech funds or for other types of closed funds.

Price of traded units

- 55. After units of a closed fund have begun to be traded on an Exchange, their price shall be set according to the outcome of trading.

Redemption of units

56. (a) If the agreement of a closed fund provides that the units can be redeemed, the Fund Manager shall redeem a unit at the demand of the unit's owner on the redemption date set in the fund agreement that is the one nearest to the day on which he received the demand for redemption (in this section: redemption date), on condition that the interval between consecutive set dates not be less than three months.
- (a1) If the Fund Manager of a closed fund received a unit holder's demand for redemption of a unit, he shall cancel the unit on the redemption date and transfer to the distributor out of the fund's account – through the Clearing House in the manner prescribed according to the rules set by the Clearing House after consultation with the Authority – a cash amount equal to the redemption price of the redeemed unit; the distributor shall on the same day transfer the amount transferred to him as aforesaid to the unit holder who requested the redemption; if the fund agreement prescribes that the addition be deducted from the redemption price, the Fund Manager shall transfer to the distributor and the distributor shall transfer the said amount to the unit holder less the addition.
- (b) The redemption price of a closed fund unit shall be equal to the sale price of the fund's assets, divided by the number of its units; the Minister of Finance may, by regulations, prescribe the manner of calculating the sale price of a closed fund's assets.
- (c) Redemption of units in a closed fund may be restricted to a maximum number of units for each owner of units, if that was prescribed in the fund agreement.
- (d) Redemption of units in a closed fund may be conditional on advance notice having been given to the Fund Manager by the owner of the units; a said condition shall be included in the fund agreement.
- (e) On a redemption date there shall be no trading in units.
- (f) *repealed.*
- (g) The Minister of Finance may prescribe, by regulations, additional instances and conditions, under which a Fund Manager may redeem units of a closed fund, either on its own initiative or in response to unit holder demand, as well as instances and conditions in which a Fund Manager is obligated to redeem the units of such a closed fund or is prohibited from redeeming them, and all either in general, specifically for high tech funds or for other types of closed funds.

Reverted units

57. The Minister of Finance may prescribe conditions in regulations, under which the manager of a closed fund may – in the course of trading on an Stock Exchange – acquire some of its units for the fund (hereafter: reverted units) or sell units reverted as aforesaid.

Article Three: Common Provisions

Issuing units for consideration and bonus units

58. (a) A unit shall not be issued not for consideration.
- (b) Notwithstanding the provision of subsection (a), a Fund Manager may allocate units not for consideration only to unit holders, in proportion to the number of units held by each unit holder on the day set for that purpose by the Fund Manager (hereafter: bonus units).

Transfer of units

- 58A. (a) A distributor shall transfer units on the written demand of a unit holder who holds units through him, and the Fund Manager shall transfer units on the written demand of a unit holder, whose units are registered in his name with the Fund Manager; aforesaid transfers of units shall be carried out in a manner that shall be specified in the prospectus.
- (b) Notwithstanding the provisions of subsection (a), distributors and Fund Managers shall not transfer units if that is prescribed in the prospectus, except if the transfers is under the operation of Law.

Assets that may be acquired and held by a fund

59. A Fund Manager shall not buy for or hold in the fund under his management anything other than securities, foreign securities, options, futures, foreign currency, cash and other assets designated by the Minister of Finance in regulations, and all that of the categories and on the conditions that he prescribed generally or for categories of funds.

Advance approval of a transaction

60. A Fund Manager does not have the right to carry out a transaction said in section 18(6), (7) or (7a), except if it was approved in advance by the Board of Directors or by one of its committees.

Investing fund assets

61. (a) A Fund Manager shall invest the fund's assets in accordance with the fund's investment policy that was determined in the fund agreement and in the prospectus or in a report submitted under this Law; if the fund's investments digress from the said investment policy, the digression shall not be deemed a violation of the provisions of this section, if the following two conditions are met:

- (1) the Fund Manager corrected the digression by the end of the second day for calculating prices after the day on which it began;
- (2) the fund's investment digressed from the aforesaid investment policy not more than five times during a twelve month period.

(a1) Notwithstanding the provisions of subsection (a), additional digressions shall not be deemed violations of the provisions of this subsection, if the Authority Chairman is satisfied that the Fund Manager took appropriate steps to prevent the violation and corrected the digression as said in subsection (a)(1).

(b) The Minister of Finance may prescribe by regulations, generally or for categories of funds, a period during which the Manager of a fund that offers its units to the public for the first time or that offers units of a fund, the investment policy of which was changed in a manner that requires replacing at least 30% of its assets, may invest the fund's assets otherwise than said in subsection (a).

(b1) (1) A Fund Manager shall not make a substantive change in the investment policy of a fund under its management that was determined in the fund agreement, in a prospectus or in a report submitted under this Law, more than once in a twelve month period; in this section, "**substantive change in the investment policy of a fund**" – a change in the fund's investment policy that requires a change in the classification of the fund in a publication under the provisions of section 73(a) or that is likely to affect substantively the fluctuation of unit prices or of redemption prices of the fund units;

- (2) the Minister of Finance may, in regulations, prescribe conditions according to which – notwithstanding the provisions of paragraph (1) – a Fund Manager

may make a substantive change in the investment policy of a fund under its management more than once in a twelve month period.

- (c) (1) A Fund Manager shall submit to the Authority and to the Stock Exchange a report on a change of the investment policy of a fund managed by him and he shall publish it in newspapers.
- (2) If a substantive change was made in a fund's investment policy, the Fund Manager shall send the report to the unit holders who hold units through him to their addresses then known to him, and he shall inform the distributors through whom units are held that they must send the report to the unit holders; distributors shall send the report to unit holders who hold units through them to their addresses then known to them immediately after they received the notification.
- (3) *repealed*
- (4) The Minister of Finance shall prescribe the particulars that shall be included in a report under this section and the time for its submission and publication.

Diversification of investments

62. (a) In this section –

"proportion of a body corporate's securities" – the value of securities or foreign securities issued by an issuer other than the State of Israel that are held in a fund, in proportion to the total net value of the fund's assets;

"proportion of a security of the value listed for trading" – the value of a security or of a foreign security held by a fund or by funds managed by a Fund Manager, in proportion to the total quantity of that security or foreign security multiplied by its value at the end of the trading day;

"proportion of another asset" – the value of an asset held by a fund, other than a security or a foreign security, in proportion to the net value of the fund's assets.

- (b) The Minister of Finance may prescribe, generally or for categories of funds, conditions for buying and holding assets said in section 59 and he may also to set maximum proportions –
 - (1) for the proportion of a body corporate's securities;
 - (2) for the proportion of a security of the value listed for trading;
 - (3) for the proportion of another asset.
- (b1) The value of a security – other than a debenture – that a significant real body

corporate issued and that a Fund Manager may hold – including in funds under its management – shall not exceed 10% of the value listed for trading of the security that the body corporate issued; in respect of the said percentage of holding the holdings of a financial institution controlled by the Fund Manager shall not be counted; in this subsection –

"value listed for trading of a security" – the value of the security

at the end of the trading day, multiplied by the quantity of the security that is listed for trading;

"financial body" and **"significant real body corporate"** – as defined in section 23B2.

- (c) If the proportion of securities of a body corporate, the proportion of a security of the value listed for trading or the proportion of another asset came to exceed the maximum proportion set by the Minister of Finance, that shall not be deemed a violation of the provisions of this section, if the following two conditions are met:
- (1) the proportion is reduced to the permitted proportion by the second day for calculating prices after the day on which it exceeded the maximum proportion;
 - (2) the proportion did not exceed the permitted proportion more than five times during a twelve month period.
- (d) Notwithstanding the provisions of subsection (c), additional digressions shall not be deemed violations of the provisions of this section, if the Authority Chairman is satisfied that the Fund Manager took appropriate steps to prevent the violation and if the provision of subsection (c)(1) was complied with.

Short sale

63. The Minister of Finance may prescribe by regulations, generally or for categories of funds, conditions under which a Fund Manager shall be allowed –

- (1) to lend securities held in a fund under his management for purposes of a short sale, on condition that the loan is not to the Fund Manager, to a person who controls it, to a company under the control of a said person, to a director or employee of any of those for purposes of a short sale by them or to another fund under his management for a short sale for it;
- (2) to make a short sale for a fund under his management.

In this section, **"short sale"** – sale on a Stock Exchange or organized market of securities that do not belong to the seller, according to rules in effect for a said sale on the Stock

Exchange or organized market on which the sale is being made.

Futures and options

64. (a) The Minister of Finance may prescribe by regulations, generally or for categories of funds, the conditions under which a Fund Manager may buy, sell or create an option or a future for a fund under his management.
- (b) For the purposes of this Law –
- "**option**" – an undertaking that gives its purchaser the right to buy or to sell the underlying asset at the realization price, or to receive the differential between the realization price and the value of the underlying asset, all at times and on terms specified in the option;
- "**future**" – an undertaking to deliver or to accept in the future Stock Exchange rate differentials, index differentials, interest differentials, an asset or the price of an asset, and that in the quantity, on the date and on the terms specified in the undertaking;
- "**realization price**" – the price at which the undertaking in the option will be realized;
- "**underlying asset**" – the asset that is the subject of the undertaking in the option.
- (c) The Minister of Finance may prescribe, by regulations, the manner of calculating the value of the underlying asset.

Cash transactions, credit transactions and obligations

65. (a) A Fund Manager shall not take credit for a fund managed by him, but the Minister of Finance may prescribe, by regulations, categories of transactions that a Fund Manager may carry out on credit on conditions that he prescribed and he may also prescribe the terms on which a Fund Manager may take credit for the redemption of units and the volume of the said credit
- (a1) If a Fund Manager carried out a credit transaction for a fund under his management or received credit for the redemption of units in digression from instructions under subsection (a), that shall not be deemed a violation of that section, if the following two conditions are complied with:
- (1) the Fund Manager corrected the digression by the end of the second price calculation day after the day on which it began;
- (2) the number of digressions from instructions under this section did not exceed five during a twelve month period.
- (b) The Minister of Finance may prescribe by regulations, generally or for categories of

funds, the maximum rate of a fund's obligations in proportion to the net value of its assets, and he may set different proportions for different categories of obligations; for the purposes of this section – "**obligation**" – other than undertakings connected with the remuneration of the Fund Manager and the Trustee and other than tax obligations.

- (c) If a fund's obligations came to exceed the proportion set by the Minister of Finance under subsection (b), the Fund Manager shall act for their reduction until the permitted proportion is reached.

66. *Repealed*

Transaction between a fund and connected bodies

67. (a) A Fund Manager, a Trustee, a controlling member of either, a person who holds 10% or more of the issued share capital of either or a company controlled by any of them, as well as a Director, a person engaged or employed by a Fund Manager or Trustee, a company controlled by any of them or a company in which any of them is an interested party or by which he is employed –
- (1) shall not sell in a transaction off Stock Exchange or off an organized market in Israel or abroad or in an agreed transaction securities, foreign securities or options that are listed for trading on them (in this section: negotiable securities) from his own account to the account of a fund managed by the Fund Manager and shall not buy aforesaid traded securities for his own account from the said account of a fund in a said transaction;
 - (2) shall not sell from his holdings to the account of a fund said in paragraph (1) any asset that is not a negotiable security and shall not buy for his holdings from the account of a said fund any asset that is not a negotiable security, except if the asset was offered by tender and the purchase or the sale was carried out at the price set by the tender; the Minister of Finance may, by regulations, prescribe conditions for the tender.
- (b) The provisions of subsection (a) shall not apply to an asset left during a period of the realization of the assets of a fund in liquidation, as said in section 109(c).

Must not hold units

68. (a) A Fund Manager shall not hold units of a fund under his management, and a Trustee shall not hold units of a fund of which he is a Trustee.
- (b) Notwithstanding that stated in subparagraph (a), the Minister of Finance may set criteria and provisions regarding the purchase of fund units held by the Fund Manager, in general, specifically for high-tech funds or for other types of closed funds.

Tender for contracting with a trading company

69. (a) A Fund Manager shall not contract with a trading company for the payment of commissions for the performance of transactions with the fund's assets out of the assets of the fund under its management, except by way of a tender; in this section, "**trading company**" – a Stock Exchange member that performs transactions for others in respect of one or several of these: securities, options, futures, foreign securities and foreign currency.
- (b) A tender said in subsection (a) shall be conducted according to a procedure prescribed by the Fund Manager's Board of Directors and approved by the Trustee; the specifications of the tender and the choice of the winner shall be approved by the Audit Committee and the Board of Directors.
- (c) Notwithstanding the provisions of subsection (a), a Fund Manager may contract, without a tender, an agreement for the performance of transactions with foreign securities directly with a trading company that is a member of a foreign Stock Exchange, provided the following conditions obtain:
- (1) the trading company is not connected to the Fund Manager; the examination of the connection shall be according to rules that the Authority shall prescribe;
 - (2) the contract with the trading company is on terms that are not worse than the best terms proposed by a competitor that met the threshold conditions of the tender.
- (d) Notwithstanding the provisions of subsection (a) and of section 81(b), a Fund Manager may contract without a tender an agreement said in subsection (a) with a trading company that is a company that controls the Fund Manager or the fund's Trustee, or is a company controlled by a person who controls the Fund Manager or the fund's Trustee (in this section: connected trading company, trading company connected to the Fund Manager or trading company connected to the Trustee, as the

case may be), provided the following conditions obtain:

- (1) the connected trading company meets the threshold conditions prescribed for the tender;
 - (2) the commission to be paid to the connected trading company for performance of any kind of transaction will not be higher than the commission payable to the winner of the tender for a similar transaction;
 - (3) the Fund Manager's Audit Committee and Board of Directors approved the contract after they were satisfied that the contract does not harm the interests of unit holders and that it is on terms that are not worse than the terms of the contract with the winner of the tender.
- (e) In a fund's fiscal year the Fund Manager shall not pay out of the fund's assets to all trading companies connected to the Fund Manager or to all trading companies connected to the Trustee for the performance of transactions with the fund's assets an amount greater than 20% of all the commissions paid in that fiscal year out of the fund's assets for said transactions.
- (f) The Authority shall prescribe rules on the following:
- (1) holding a tender under this section and also conditions under which a Fund Manager will be exempt of holding a tender in order to contract an agreement said in subsection (a) for a limited period;
 - (2) conditions of the contract with a connected trading company, also in respect of the rate of commission to be paid to it for performing transactions with the fund's assets;
 - (3) additional matters required for implementation of the provisions of this section.
- (g) Rules that the Authority will prescribe under subsections (c)(1) and (f) shall be published in the Official Government Gazette.

Debiting and crediting a fund

70. A Fund Manager who bought an asset for a fund he manages or sold one of the fund's assets shall debit or credit to the fund's account the amount actually paid or received on the day on which the consideration for the asset was paid or received, as the case may be.

Notice of units held

71. (a) If a person who controls a Fund Manager, a company controlled by a said person, a Director or an employee of the Fund Manager or his employee holds units in an

amount in respect of which the Minister of Finance prescribed the obligation to submit a report, the Fund Manager shall submit a report thereof to the Authority and to the Stock Exchange at the time and in the manner that the Minister of Finance prescribed and he shall also submit a report on a change in the number of units held as aforesaid.

- (b) If a person holds units in a closed fund in an amount in respect of which the Minister of Finance prescribed the obligation to submit a report, the Fund Manager shall submit a report thereof to the Authority and to the Stock Exchange at the time and in the manner that the Minister of Finance prescribed, and he shall also submit reports on changes in the number of units held as aforesaid.
- (c) A holder said in subsections (a) or (b) shall submit notice of the units he holds and of changes in their number to the Fund Manager at the time and in the manner that the Minister of Finance shall prescribe in regulations.
- (d) If a holder said in subsections (a) or (b) did not submit a notice said in subsection (c), the Court may – at the Fund Manager's request – order him to submit it by the time it set.

Reports

72. (a) The Minister of Finance may prescribe in regulations –
- (1) reports in addition to those enumerated in this Law that a Fund Manager and a Trustee must submit to the Authority, to the Exchange, to distributors or to any of them, the particulars to be included in them, when they are to be drawn up and submitted and their format, as well as aforesaid reports that they must publish in a newspaper, or that must be sent to unit holders in the manner prescribed in subsection (e1);
 - (2) the particulars to be included in reports that Fund Managers and Trustees must submit under this Law, the times when they are to be drawn up and submitted and their format.
- (a1) If a prospectus included financial reports of a body corporate that guaranteed a certain redemption price for the fund's units, the provisions of Chapter Six of the Securities Law shall apply, mutatis mutandis, to the body corporate as long as the guaranty is in effect.
 - (b) Fund Managers and Trustees must submit to the Authority – on its demand or on that of an employee empowered by it for this matter – a report on an event or matter, if it

is the Authority's or the employee's opinion that information about it is important for a reasonable investor who considers acquisition or redemption of a unit or the purchase or sale of a unit in a closed fund; a said demand may prescribe when the Fund Manager must submit the said report and how it shall be published in newspapers.

- (c) Fund Managers must submit to the Authority in writing – on its demand or on that of an employee empowered by it for this matter – any explanation, particulars, information and documents that relate to the particulars included in any report or announcement under this Law, within a period that they shall set.
- (d) The Authority or an employee empowered by it for this matter may order a Fund Manager – after he was given appropriate opportunity to present his arguments – to submit a correcting report within a period specified by either of them, if either of them concluded that a report submitted did not comply with requirements under this Law or if particulars delivered by virtue of the provisions of subsection (c) make the issue of an aforesaid order necessary.
- (e) If the Authority or an employee empowered by it for this matter is convinced that it is impossible for a Fund Manager to submit a report under this Law by the time set therefor in regulations, they may extend the time for its submission.
- (e1) (1) The Authority Chairman may, if he concluded that information in a report that must be submitted under this Law is of special importance for holders of the fund's units, order the Fund Manager to send the report to the unit holders who hold units through him to their addresses, as known to him at the time, and to inform distributors through whom fund units are being held that they must send the report to the unit holders.
(2) When a distributor receives a notice said in paragraph (1), he shall – immediately after he received the notice – send the report to the unit holders who hold units through him to their addresses, as known to him at the time,
- (f) If a Fund Manager failed to comply with any of the provisions of this section, the Court may – at the Authority Chairman's request – order him to comply with it by the time set by it.
- (g) Whoever submitted a report or notice that must be submitted under this Law or gave an opinion or conducted a survey that was included in an aforesaid report or notice after he gave his prior written consent thereto is liable toward whoever acquired or redeemed, bought or sold units in the fund, trading on or off an Exchange, for damage

caused him because a misleading particular that was included, and the provisions of sections 39 and 40 shall apply, mutatis mutandis.

- (h) *repealed*
- (i) A report submitted under any provision of this Law shall be open for inspection by the public, in the head offices of the Fund Manager and of the Trustee, and everybody is entitled to receive a copy thereof, all if there is no different provision about them in this Law.

Ways of reporting to the Authority

- 72A. (a) A fund's draft prospectus, the prospectus of a fund of which publication has been permitted and every report, opinion or approval included in them, as well as every report, notice, information or document that must be submitted to the Authority under this Law shall be submitted according to Chapter Seven "A" of the Securities Law.
- (b) Reports that under the provisions of this Law must be submitted both to the Authority and to the Exchange, as well as the prospectus of a fund that the Authority permitted to be published and that were submitted to the Authority as said in subsection (a) shall be transmitted by the Authority to the Exchange, and their submission to the Authority shall also be deemed compliance with the obligation of submission the Exchange.

Examining a document and certified copies

- 72B. (a) Fund agreements, fund prospectuses the publication of which was permitted, opinions or approvals included in prospectuses, as well as every report submitted to the Authority under this Law shall be open to for examination by the public and everybody may read them and obtain certified copies of their contents, either through the Authority or through others whom the Authority authorized for this purpose, all when there is no different provision under this Law.
- (b) The certified copy of a document submitted to the Authority shall be accepted in every legal proceeding like an original and it shall constitute absolute proof that the original document is held by the Authority; the provisions of this subsection shall also apply to printouts of documents submitted to the Authority in the manner said in section 72A(a); for this purpose, "**printout**" – as defined in the Computers Law 5755-1995.

Publication

73. (a) A Fund Manager shall not publish and shall not cause to be published anything in connection with the fund under his management, except if the Trustee gave advance approval of the publication and its contents; the provisions of this subsection shall not apply to announcements on the publication of a prospectus and to announcements and reports that must be published in newspapers.
- (b) A Fund Manager, a person who holds control of it or a company under the control of an aforesaid person shall not publish or cause to be published –
- (1) the yield achieved by an open fund, unless it was calculated by use of a formula prescribed by the Minister of Finance in regulations and in respect of a period prescribed by him;
 - (2) anything about the fund that includes a misleading particular.
- (c) (1) A Fund Manager, a person who holds control of it or a company under the control of a said person shall not publish and shall not cause to be published anything that relates to a fund not under the Fund Manager's management; the aforesaid shall not prevent publication of data on all or most funds, prepared according to the provisions of subsection (c1), or a periodic analysis or survey of fund data, the purpose of which is to give the public general information.
- (2) Notwithstanding the provisions of paragraph (1), a Fund Manager, a person who holds control of it or a company under the control of an aforesaid person may publish on the internet – in addition to data about the fund under the Fund Manager's management – also data about funds not under its management, on condition that the publication relates to all the funds in the same classification as the said fund, in a publication made according to the provisions of subsection (c1).
 - (3) The Minister of Finance may prescribe provisions on the particulars to be included in a publication said in paragraph (2) and on the periods to which the publication shall relate.
- (c1) (1) A person shall not publish or cause publication of unit prices or unit redemption prices of all or of most funds or of their yields, unless in the publication the funds are classified according to provisions prescribed by the Minister of Finance in regulations and unless they are presented in the publication according to the said regulations.
- (2) The Minister of Finance may prescribe provisions on the particulars to be

included in a publication said in paragraph (1) and in respect of the format of the publication and he may also prescribe that in the publication the funds be classified according to characteristic titles, including characteristic titles from a list of characteristic titles that the Authority shall prescribe from time to time.

- (c2) A Fund Manager, a person who holds control of it or a company under the control of a said person shall not publish and shall not cause to be published anything about a closed fund managed by the Fund Manager, other than particulars that are to be published under the provisions of any statute.
- (d) If the Authority concludes that anything published in respect of a fund included a misleading particular, it may – after it gave the person who caused the publication and the Trustee an appropriate opportunity to state their arguments – order that a correction be published by means and in the manner it shall prescribe.
- (e) In this section –
"Fund Manager" includes any person employed by it;
"to publish", "publication" – within their meaning in section 34X of the Penal Law 5737-1977 (in this Law: the Penal Law).

Misleading particular

- 73A. (a) There shall be no misleading particular in a fund agreement, prospectus, report, notice or document that is submitted to the Authority under this Law (in this section: report);
- (b) There shall be no misleading particular in an opinion, report, survey or certification (in this section: opinion) that is included or mentioned in a report with the advance consent of the person who gave the opinion.

CHAPTER SEVEN: PRINCIPLES OF TRUSTEESHIP

Benefit of unit holders

- 74. Trustees and Fund Managers shall perform their functions and use their powers only for the benefit of unit holders and a Fund Manager shall not discriminate between unit holders in one fund that it manages and unit holders in another fund that it manages..

Obligation of loyalty

75. (a) Trustees and Fund Managers shall perform their functions and use their powers with caution, in good faith and diligently.
- (b) Trustees and Fund Managers shall take reasonable steps to protect the fund's assets and all the rights that derive from those assets.

Provisions on funds' assets

76. (a) A fund's assets shall be vested in the Trustee for the unit holders' benefit, shall be property that is separated from his other property and if they include assets other than securities traded on an Exchange, they also shall be registered in his name.
- (b) The Trustee shall give the Fund Manager a power of attorney to manage the trust's assets, which includes taking legal steps to protect the fund's assets and every right that derives from them.
- (c) The Trustee shall give the Fund Manager powers of attorney to participate in General Meetings of bodies corporate, the securities of which are held by the fund, or to nominate a proxy on his behalf to participate in said General Meetings during a period that he shall set; if the Fund Manager appointed a proxy, he shall instruct him how to vote at the General Meeting.
- (d) The Fund Manager shall deposit the fund's cash assets in an account in a bank in Israel or in a bank abroad.

Fund Manager's participation in holders' meetings and other proceedings

77. (a) The Minister of Finance shall set provisions regarding a Fund Manager's participation in holders' meetings as well as in other proceedings in which securities holders are entitled to participate, in corporations the securities of which – other than foreign securities - were offered to the public and that were held in a fund under its management on the determining date for share ownership under section 182 of the Companies Law or for debenture ownership under section 35L24 of the Securities Law, as applicable; for this purpose, "**holders meeting**" – a meeting of some or all holders of securities in a said corporation, including a General Meeting, as defined in the Companies Law.
- (a1) Notwithstanding the provisions of subsection (a), a Fund Manager may abstain from voting at the General Meeting of a body corporate, if the draft resolution presented for the General Meeting's approval concerns a controlling member of the Fund Manager or if the Fund Manager has a personal interest in the approval of the

decision.

(b) *repealed.*

(b1) *repealed.*

(b2) (1) For the purposes of subsection (a), securities that on the determining date for participation in a General Meeting were lent out of the fund's assets for purposes of a short sale shall not be deemed securities held by the fund.

(2) In this subsection –

"**determining date**" – within its meaning in section 182 of the Companies Law or within its meaning in section 35L24 of the Securities Law, as applicable;

"**short sale**" – as defined in section 63.

(c) Fund Managers shall submit reports to the Authority and to the Exchange, according to rules the Minister of Finance made in regulations, on the way they voted at holders' meetings as well as in other proceedings in which securities holders are entitled to participate.

Obligations and functions of the Trustee

78. (a) The Trustee shall supervise the Fund Manager's compliance with provisions under this Law, its compliance with provisions of the fund agreement and its fulfillment of undertakings under the prospectus; without derogating from the generality of this provision and of the provisions of sections 74 and 75, the Trustee shall do whatever is required – inter alia, by way of audits of the Fund Manager – in order to ascertain that the Fund Manager maintains all the following:

(1) an orderly decision making process, in line with procedures approved by the Board of Directors;

(2) an internal auditing system that assures the orderly keeping of the fund's books, as defined in section 129(a);

(3) a system of means to assure that the fund is managed according to the provisions of this Law, the provisions of the fund agreement and its obligations under the prospectus;

(4) management of the fund's investments according to procedures that the Fund Manager's Board of Directors prescribed under section 18(8).

(a1) The Trustee shall – from time to time and according to need – inform the Fund Manager's employees of provisions under this Law that are connected to the management of the fund.

- (b) The Trustee may determine what constitutes a transaction that is substantive for the fund or categories of transactions that are liable to involve conflicts of interest, within the meaning of all these in section 18(6).
- (c) The Fund Manager shall deliver to the Trustee – on the Trustee's demand – any document and all the information he requires for the exercise of his responsibilities.
- (d) If the Trustee finds that there were shortcomings in the management of the fund, he shall give the Fund Manager written instructions to correct them and he shall set a time for their correction; the Trustee shall transmit a copy of its instructions to the Fund Manager's Board of Directors.
- (e) (1) Within three months after the end of each quarter the Trustee shall submit a report to the Authority and to the Exchange, in which he shall –
 - (a) report whether the systems of means under subsection (a)(3) suffices to assure what is said there;
 - (b) report that the checks of the Fund Manager that he made during the preceding quarter did not find any violations of this Law, of the provisions of the fund agreement and of the undertakings under the prospectus or give notice that he found said violations or shortcomings and that they were corrected; if the Trustee instructed the Fund Manager to correct violations or shortcomings that he found and that have not yet been corrected, he shall specify in the report the directions that he gave;
 - (c) specify the central subjects that were checked at the Fund Manager during the preceding quarter;

for this purpose, "**quarter**" – a three month period that begins on January 1, April 1, July 1 and October 1 of each year;

 - (2) before the Trustee gives a notice said in paragraph (1), he shall transmit it to the Fund Manager and set a reasonable period of time for getting his reaction; the Trustee shall submit the report to the Authority together with the Fund Manager's response, if any.
 - (3) The Minister of Finance may prescribe additional particulars that shall be included in the report said in paragraph (1).
- (f) (1) The Trustee shall inform the Authority of all the following:
 - (a) substantive shortcomings in the management of the fund, immediately after he found them or learned of them;

- (b) substantive shortcomings in the management of the fund, which he instructed the Fund Manager to correct within a time that he set and that were not corrected in that time – immediately after the set time;
 - (c) repeated shortcomings in the management of the fund – within a reasonable time after their occurrence.
- (2) Before the Trustee gives the notice said in paragraph (1), he shall give it to the Fund Manager and set a reasonable period of time to get his response; the Trustee shall give said notice to the Authority together with the Fund Manager's response, if any.
- (g) The Authority may – after it has given the Fund Manager and the Trustee an appropriate opportunity to present their arguments – order the Trustee to give the Authority and the Stock Exchange a report on shortcomings said in subsection (f) within a time that it shall set.
- (h) The Trustee shall deliver to the Authority Chairman or to an employee authorized by him, on the demand of either, particulars on a matter that relates to the fund or to its management; the Trustee shall deliver a copy of the demand and of his reply thereto to the Fund Manager.

Charging assets of a fund

79. The assets of a fund cannot be attached; a Fund Manager must not mortgage or charge the assets of the fund, except for the performance of a transaction for the fund, according to conditions prescribed by the Minister of Finance in regulations.

Expenses to be paid out of fund assets

80. (a) Only the following expenses shall be paid out of a fund's assets:
- (1) remuneration of the Trustee and of the Fund Manager, as prescribed in the fund agreement and the prospectus or in a report the Fund Manager submitted under this Law;
 - (2) commissions and other expenses involved in the performance of transactions for the fund, as specified in the prospectus or in a report the Fund Manager submitted under this Law;
 - (3) taxes that apply to the fund, to its assets, to its income and to transactions performed with its assets.
- (a1) The Minister of Finance may prescribe other kinds of expenses which a Fund

Manager may pay from a fund's assets, generally or specifically for high-tech funds, and may set maximum amounts or rates which may be paid for allowable expenses from fund assets, as stated under the provisions of this section and the dates of their payment.

- (b) Notwithstanding the provisions of subsection (a), the Fund Manager may – with the Trustee's approval – and the Trustee may, through the Fund Manager, recoup from the fund any expense incurred in the performance of their functions otherwise than in the ordinary course of the fund's management, on condition that the expense is in a reasonable amount.
- (c) If the Fund Manager or the Trustee decided to recoup from the fund's assets, as said in subsection (b), he shall immediately submit a report thereof to the Authority and to the Exchange.

Expenses for the correction of an error

80A. Distributors shall not debit unit holders for an expense of correcting records kept by the distributor, in respect of the correction of an error in a unit price or redemption price.

Must not accept any benefit

81. (a) A Fund Manager shall not derive any benefit whatsoever in connection with the management of the fund, except –
- (1) the addition and the remuneration, according to the Fund Agreement and the prospectus;
 - (2) services and housing from a person who controls it or from a company controlled by a said person.
- (b) A person who controls a Fund Manager and a company controlled by an said person shall derive no benefit whatsoever in connection with the management of the fund, except from the Fund Manager.
- (c) A Fund Manager's Director, a member of a Board of Directors Committee who is not a Director and a person who is engaged or employed by the Fund Manager shall derive no benefit whatsoever in connection with the management of the fund, except from the Fund Manager. For the purpose of the provisions of this subsection, "**employee**" – including a person which controls the employee or a company controlled by a said person.

- (d) The Trustee shall derive no benefit whatsoever in connection with the exercise of his responsibility as Trustee of the fund, except for the remuneration prescribed in the fund agreement and in the prospectus, which shall be paid out of the fund's assets.

Directors' abstention from voting

81A. Directors of a Fund Manager or members of Board of Directors Committees shall not be present and shall not vote at any discussion on the approval of a transaction in securities issued by a body corporate in which they are interested parties; if one of these was present at or voted on the approval of a said transaction, the Authority may – after it has given him, the Fund Manager and the Trustee appropriate opportunities to present their arguments – petition the Court to remove him from his position.

Must not give any benefit

82. (a) No payment or other benefit shall be offered in connection with the acquisition, redemption, sale or holding of units; the provisions of this section shall not apply to the following:
- (1) granting a reduction of the addition according to conditions that the Fund Manager prescribed in a prospectus or report, which are not subject to the Fund Manager's discretion;
 - (2) paying distribution commissions to distributors who are investment marketers, as defined in the Regulation Law (in this subsection: marketer);
 - (3) paying distribution commissions to another distributor according to conditions under this section;
 - (4) paying a wage or commission by a marketer or the Fund Manager to his employee or to a person engaged by him;
 - (5) payments by a distributor to persons who hold units through him, in an amount that does not exceed the amount of the distribution commission that the same distributor collects from the Fund Manager for holding those units through him, and for a Trust fund in respect of which it was determined under section 3(a)(12) of the Regulation Law that for it investment counseling or investment marketing does not require a license – also payments to persons to whom the right to receive said payments was endorsed by a unit holder.
 - (6) payments to market makers or underwriters, for fund units, for market making or underwriting activity; for this purpose –
"**market maker**" – a person who has undertaken to submit every day on which

trading takes place on an exchange, orders for the purchase of units and orders for the sale of units according to rules prescribed by the exchange, as well as to publish the price at which it undertakes to buy a unit and the price at which he undertakes to sell a unit;

"**underwriter**" one who has undertaken to buy units offered under a prospectus, should the public not subscribe to them, or has undertaken to purchase units offered under a prospectus in order to sell them to the public.

- (b) The rate of commission collected by distributors in connection with the sale, redemption or holding of fund units shall not change because it is collected from different Fund Managers.
- (c) On a proposal by the Authority or after consultation with it and with approval by the Knesset Finance Committee the Minister of Finance may prescribe, subject to the provisions of subsection (b), generally or for categories of funds, conditions under which Fund Managers may pay distribution commissions to distributors, as well as provisions on the maximum rate of the said commission and how it is to be calculated.

Liability of Fund Manager

83. (a) A Fund Manager is liable toward unit holders for any damage caused them because he violated any provision under this Law, any provision of the prospectus or any provision of the fund agreement; the said liability shall also apply to the Directors, to members of Board of Directors Committees who are not Directors and to the General Manager.
- (b) The Trustee is liable toward unit holders for any damage caused them because did not comply with the provisions of sections 74, 75 and 78(a); the said liability shall also apply to the Directors and the General Manager.
- (c) Liability under subsections (a) and (b) shall not apply –
- (1) to a person who proved that he took all appropriate steps in order to prevent the violation;
 - (2) to a person who proved that he did not know, was not supposed to know or could not have known about the violation;
 - (3) toward a person, of whom it was proven that he acquired the units while he knew of the violation.

- (d) If two or more bear liability under this section, they are jointly and severally liable to the injured person; between them they shall bear the liability according to the rules that apply to liability for civil wrongs.

Saving of statutes

- 84. The provisions of section 83 shall not derogate from remedies available to unit holders under other statutes.

Admissibility of a judgment

- 85. The findings and conclusions of a final judgment in a petition against an Authority ruling under section 15(a) shall be admissible in a civil suit against a Fund Manager as prima facie evidence of their contents, and the provisions of sections 42B, 42C and 42E of the Evidence Ordinance [New Version] 5731-1971 shall apply, mutatis mutandis.

Must not delegate powers

- 86. A Trustee and a Fund Manager are not allowed to delegate their powers or to transfer their responsibilities under this Law; the employment of a person by a Trustee or a Fund Manager shall not be deemed a delegation of powers or a transfer of responsibilities and it shall not derogate from their liability toward the unit holders.

Unlawful profit

- 87. If the Court concluded – on the petition of a unit holder, a Fund Manager or a Trustee – that a Fund Manager or a Trustee unlawfully derived profit or collected payments in the course of performing their functions or that they paid expenses out of a fund's assets unlawfully or in unreasonable amounts, the Court may order that they recompense the fund, the unit holders or persons who were unit holders in amounts and in a manner that it shall prescribe.

CHAPTER EIGHT: TAXES

88 to 93: *Repealed*

Exemption from stamp tax

94. A unit and its transfer are exempt of stamp tax.

CHAPTER NINE: GENERAL PROVISIONS

95. *Repealed*

Appearance by the Authority

96. If civil proceedings to which a Fund Manager or a Trustee is a party were opened before a Court, the Fund Manager or Trustee shall inform the Authority thereof in writing; if the Authority Chairman concludes that interests of unit holders are affected or are liable to be affected by the proceeding, he may appear in those proceedings and be heard.

Supervision by Authority

97. (a) In the performance of their obligations under this Law, Fund Managers and Trustees shall be subject to supervision by the Authority.
- (b) For purposes of the supervision said in subsection (a), the Authority may issue instructions on the way Fund Managers and Trustees, their officers and all persons employed by them shall function, all in order to assure the proper operation of Fund Managers and Trustees and the protection of the unit holders' interests; said instructions may be issued to all Fund Managers and Trustees or to certain categories of them.
- (b1) (1) Instructions issued under subsection (b) need not be published in the Official Government Gazette, however the Authority shall post notice in the Official Government Gazette regarding the issuance of said instructions and their effective date.
- (2) Instructions issued under subsection (b) and any revision to them shall be open for public scrutiny at the Authority's offices and will be posted on its website.
- (c) For purposes of the supervision aforementioned in subsection (a) the Authority may also authorize persons who are not Authority employees to audit a body corporate to which the provisions of this Law apply and to demand documents and information related to the business of the body corporate, such as are necessary for the performance of its duty.

- (d) Persons authorized under subsection (c) shall not reveal the content of any information or document they received by virtue of their assignment, except for purposes of the audit or to the Authority Chairman or to an Authority employee, as directed by the Authority Chairman; this provision shall not prevent disclosure upon a demand by the Attorney General for purposes of a criminal trial, or upon the demand of a Court.

Applying the Authority's power

97A. (a) In this section –

"violation" – each of the following:

- (1) a violation within its meaning in section 114;
- (2) a violation as defined in section 119;

"offense" – each of the following:

- (1) an offense under this Law;
- (2) an offense under sections 284, 290, 291, 415, 423, 424, 424A and 425 of the Penal Law, committed in connection with an offense under paragraph (1);
- (3) an offense under sections 3 and 4 of the Prohibition of Money Laundering Law 5760-2000, committed in connection with an offense under paragraphs (1) or (2);
- (4) an offense under sections 240, 242, 244, 245 or 246 of the Penal Law, committed in connection with an investigation or a judicial proceeding for an offense under paragraphs (1) to (3).

- (b) (1) In order to assure the implementation of this Law, or if there were reasonable grounds to assume that a violation had been committed or if suspicion arose that an offense had been committed, the Authority Chairman or an Authority employee whom he so authorized in writing may:
 - (a) demand of any person any information or document that is related to the business of a Fund Manager or Trustee or is connected to an aforesaid violation or offense;
 - (b) enter, after he identified himself, any place for which he has grounds to assume that the activity of a supervised factor, as defined in the Securities Law, takes place there and that is not used only for residential purposes, and demand that he be given documents said in subsection (a); however,

a said document shall not be seized if a copy thereof will suffice.

- (2) The provisions of section 56A(b) of the Securities Law shall apply to the return of a document given to the Authority under paragraph (1).
- (c) The provisions of sections 56A1 to 56E of the Securities Law shall apply, mutatis mutandis and with this change: in section 56C2, replace "paragraphs (3) or (4) of the definition of "securities offense"" with "paragraphs (2) or (3) of the definition of "offense", as defined in section 97A of the Joint Investment Trusts Law."

98. *Repealed*

Appointment of an auditor and his obligations

- 99. (a) The Trustee shall, in consultation with the Fund Manager, appoint an auditor for the fund within three months after it was founded and he shall pay his remuneration.
- (b) If, in the exercise of his office, the auditor learns of a substantive violation or of a continuing or repeated violation by the Fund Manager of a provision under this Law or of the fund agreement, he shall so inform the Trustee and the Fund Manager in writing and request the Fund Manager's response within a time that he shall set for that purpose; notwithstanding the provision of any statute or agreement, the auditor shall inform the Authority of a said violation, together with the Fund Manager's response, if one was received.

Internal auditor

- 99A. (a) The provisions of sections 3(a), 4(b) 8, 9, 10 and 12 of the Internal Audit Law 5752-1992 shall apply to an internal auditor appointed under section 18(5a), mutatis mutandis.
- (b) The internal auditor shall examine, inter alia, the propriety of the Fund Manager's acts in respect of their compliance with the provisions of any statute, with orderly business practice and with procedures prescribed by the Fund Manager's Board of Directors under section 18(8).
- (c) The internal auditor shall report his findings to the Chairman of the Board of Directors, to the Audit Committee, to the General Manager and to the Trustee.

Mergers and splits of open funds

- 100. (a) A Fund Manager may merge open funds under his management into a single open fund, if in his opinion there is nothing to prevent the merger and the Trustee is so

convinced, after the merger plan was approved by the Trustee of each of the funds that are to be merged; if a new fund is created in consequence of the merger, a fund agreement shall be drawn up for it according to the provisions of Article Two in Chapter Two; the provisions of Chapter Three shall apply to an offering of its units to the public and the effect of the fund agreements of the merged funds shall lapse.

- (b) In a merger of open funds into a single fund the Fund Manager shall transfer all assets of the merging funds to the account of the single fund and he shall convert the units of the merging funds into units of the single fund, so that the value of units, within its meaning in section 50(a)(2), held by a person immediately before the merger in one or more of the merging funds will not change in consequence of the merger, except for a change due to any tax or the payment of any debt which, in consequence of the merger, applies to the merging funds or to the fund created in consequence of the merger; a Fund Manager may convert fractions of units created in consequence of the merger into cash.
- (c) A Fund Manager may split an open fund under his management into two or more open funds, if in his opinion there is nothing to prevent the split and the Trustee is so convinced, after the plan of the split was approved by the Trustee; a fund agreement under the provisions of Article Two in Chapter Two shall be drawn up for every fund created in consequence of the split; the provisions of Chapter Three shall apply to an offering of their units to the public and the effect of the split fund's fund agreement shall lapse.
- (d) When an open fund is split the Fund Manager shall convert the units of the splitting fund into units of the funds to be created in consequence of the split, so that the holder of a unit in the splitting fund receives units of each of the said funds in a proportion equal to the proportion of all the units he held in the splitting fund; the value of units, within its meaning in section 50(a)(2), held after the split by a person who immediately before the split held units in the splitting fund shall not change in consequence of the split, except for a change due to tax or to the payment of a debt which, in consequence of the split, applies to the funds created in consequence of the split or to the splitting fund; the Fund Manager may convert fractions of units created in consequence of the split into cash.
- (e) The Trustees of merging funds shall supervise the merger, and the Trustee of a splitting fund shall supervise the split.
- (f) (1) The Fund Manager shall file a report to the Authority and stock exchange

regarding a merger or split, its plan and date, no later than two weeks prior to the date scheduled for the merger or split, as applicable.

- (2) The Fund Manager shall file a report to the Authority and stock exchange regarding the merger or the split and publish the report in a newspaper no later than the first business day following a fund merger or following the split of a fund.
- (g) “Fund Managers and distributors shall send the reports aforementioned in subsection (f) to the unit holders, which hold units through them, as stipulated in section 112A(b); a report sent to unit holders under subsection (f)(2) will contain an attached notice, which shall state –
 - (1) the number of units the unit holder held immediately before the merger and the value of the units, within its meaning in section 50(a)(2), and the number of units that he holds in the fund after the merger and their value as aforesaid;
 - (2) the number of units the unit holder held immediately before the split and their aforesaid value, the number of units that

he holds in each of the funds after the split and their aforesaid value.

Closed fund becomes an open fund

101. (a) *Repealed*

- (b) The date on which a closed fund becomes an open fund shall not be earlier than thirty days from the day the Fund Manager filed a report regarding this to the Authority and stock exchange. .
- (c) A closed fund shall not become an open fund, except after its units were delisted from trading on the Exchange.
- (d) When a closed fund has become an open fund, the Fund Manager shall submit a report thereof to the Authority and to the Stock Exchange not later than one business day after the day on which it became an open fund and he shall publish the report in a newspaper.
- (e) Fund Managers and distributors shall send the reports aforementioned in subsections (b) and (d) to the unit holders which hold units through them, as stipulated in section 112A(b).

Open fund becomes a closed fund

102. (a) An open fund can become a closed fund, if an extraordinary resolution to that effect was adopted by the unit holders; when the said resolution has been adopted, the Fund Manager shall petition the Court for approval of the resolution's implementation and the Court shall give its approval if it is satisfied that that will not harm the unit holders; when the Court's approval has been given, the Fund Manager shall implement the extraordinary resolution.
- (b) The Fund Manager shall submit a report to the Authority and to the Stock Exchange about the application to the Court said in subsection (a) and when the approval is given he shall transmit copies thereof to them.
- (c) The date on which an open fund becomes a closed fund shall not be earlier than 120 days after the Court's approval was obtained.
- (d) When an open fund has become a closed fund, the provisions of section 101(d) shall apply, mutatis mutandis.

Grounds for a fund Liquidation

103. A fund shall be wound up in one of the following instances:

- (1) the period of the fund's existence, as prescribed in the fund agreement, has come to an end (hereafter: end of the fund period);
- (2) a resolution to wind up the fund was adopted according to provisions in the fund agreement;
- (3) an extraordinary resolution to wind up was adopted at a General Meeting of unit holders in a closed fund, unless otherwise prescribed in a provision issued under this Law;
- (4) the Board of Directors of the Stock Exchange decided to delist a closed fund's units from trading on the Exchange, and – if appeal was lodged against the decision – the decision was approved by a final judgment.

Liquidation or merger of a fund with deficient net asset value

104A. (a) Should an open fund's net asset value fall below half the minimum value stipulated in section 46(g) for a period of 90 consecutive days or of 120 days out of a period of 180 days, the Fund Manager shall liquidate the fund or merge it with another fund under its management into one fund, in a manner which renders the value of the one fund's assets greater than half the minimum value; the Fund Manager shall inform

the unit holders of its decision to liquidate or merge the fund, as applicable, within seven days of the end of the aforementioned period, as applicable.

- (b) Notwithstanding the provisions of subsection (a), the Fund Manager may continue to manage the fund, provided it meets these conditions:
 - (1) the rate of the Fund Manager's remuneration does not exceed the average rate of its remuneration from all the funds of that category under the Fund Manager's management of and the rate of the Trustee's remuneration does not exceed the average rate of the its remuneration from all the funds of that category that are managed by the Fund Manager and for which he is the Trustee; for this purpose, "**category**" – a category of funds as prescribed by the Minister of Finance under section 82;
 - (2) the period during which the net value of the fund's assets was less than half the minimum value set under section 46(g) did not exceed 120 consecutive days or 150 days out of a period of 210 days.
- (c) The Authority Chairman or a staff member authorized by him may – at the Fund Manager's and the Trustee's request, for reasons that shall be recorded – extend the periods prescribed in subsection (a).
- (d) Should that stipulated in subsection (a) occur, the Fund Manager shall bear the excess expenses deducted from fund assets up to the date of liquidation or merger, as applicable, out of its own means; in this subsection, "**excess expenses**" – expenses paid out of fund assets under section 80 due to deficient net asset value.
- (e) This section shall apply to open funds one year after its units were initially offered to the public, or from the day a substantive change was made to the fund's investment policy, as defined in section 61(b1).

Fund liquidator – remuneration and qualifications

105. (a) The Fund Manager shall serve as liquidator of the fund, but if the Court made an order under section 104(a), it shall appoint the Trustee as liquidator for the fund, except if it found that there are reasons that justify appointing another liquidator.
- (a1) The fund's liquidator's remuneration shall be paid out of the fund's assets.
 - (a2) The rate of remuneration the of the Fund Manager or Trustee as the fund's liquidator shall not exceed the rate of remuneration paid to the Fund Manager during the twelve months that preceded the date on which the liquidation began, multiplied by the proportion between the liquidation period and twelve months; in this subsection,

"rate of remuneration" – the amount of pay, divided by the average net value of the fund's assets during the period for which the pay was paid; for this purpose the aforesaid average net value shall be calculated according to the daily net value of the fund's assets on each of the trading days during the period for which the pay was paid.

- (b) The Minister of Finance may prescribe in regulations, generally or by categories of funds, the maximum remuneration to be paid to a liquidator who is not the Fund Manager or Trustee.
- (c) The costs of liquidation, other than commissions on the sale of the fund's assets, shall be paid out of the liquidator's remuneration; commissions on the sale of fund assets shall be paid out of the fund assets.
- (d) The Court shall not appoint a liquidator for a fund – other than the Trustee – except if he meets all the following qualifications:
 - (1) he is a member of the Israel Bar Association or holds an auditor's license in Israel, or has professional training that in the Court's opinion is necessary for that position;
 - (2) he has experience that in the Court's opinion is sufficient for the performance of the liquidator's functions;
 - (3) his activities or his connections with the Fund Manager, with the company that controls the Fund Manager or with a company under control of a said company are not liable to create conflicts of interest in the performance of his function.

Notice of the liquidation of a fund

106. (a) The liquidator shall inform the unit holders, the Trustee, the Authority and the Stock Exchange that the fund is being liquidated and he shall publish a notice in newspapers, not earlier than 60 days and not later than 30 days before the date of liquidation.
- (a1) The offering of an open fund's units shall be discontinued starting from the first price calculation day following the date notification to the Authority is sent, as stipulated in subsection (a).
 - (a2) Notwithstanding that stated in section 61, during a fund's asset realization period, as stipulated in section 109(a), the Fund Manager may deviate from the fund's investment policy as set in the fund agreement and prospectus or report, given the fund's asset realization.

- (b) The fund liquidator shall send the notice under subsection (a) to the unit holders who hold units through the Fund Manager and he shall inform the distributor through whom units are held by a written notice addressed to him, that he must send the notice to the unit holders; a distributor who received a said notice shall, immediately after he received it, send it to the unit holders who hold units through him; the notice shall be sent to the addresses known at that time and it shall include, *inter alia*, the grounds for the liquidation, the liquidation date, the liquidator's name and remuneration, the fact that the offering of an open fund's units will be discontinued starting the date notification is sent, the right of the Fund Manager to deviate from the fund's investment policy due to fund's asset realization, and where the fund's books are to be kept after the liquidation.
- (c) Not later than thirty days prior to liquidation the manager of a closed fund shall request the Board of Directors of the Stock Exchange to delist the units from trading; the units shall not be delisted, except 30 days after the date of the request.

Date of the fund's liquidation

107. (a) If the Court issued an order for a fund's liquidation, it shall set the date of liquidation, but that date shall not precede 30 days following the issuance of the order.
- (b) The date of a fund's liquidation, otherwise than by Court order, shall be –
- (1) in a liquidation under section 103(1) – the end of the fund period, as prescribed in the fund agreement;
 - (2) in a liquidation under section 103(2) – the date prescribed by the resolution according to the provisions of the fund agreement, or 30 days after notice was given as said in section 106, whichever is later;
 - (3) in a liquidation under section 103(3) – not later than three months after the resolution was adopted by the General Meeting;
 - (4) in a liquidation under section 103(4) – the day on which the closed fund's units are delisted from trading on the Exchange;
 - (5) *repealed*;
 - (6) in a liquidation under Section 104A – at the end of a period which shall not exceed ninety days from the date notification was sent to the Authority as stipulated in section 106.

Miscellaneous provisions on liquidation of a fund

108. (a) The Trustee's and of the Fund Manager's obligations shall remain in effect, mutatis mutandis, during the period of the fund's liquidation by the Fund Manager.
- (b) If a liquidator other than the Fund Manager was appointed –
- (1) the fund's assets and all the powers required for its liquidation shall be vested in him;
 - (2) the obligations, powers and responsibilities of the Fund Manager and of the Trustee in respect of the fund shall lapse when the liquidator is appointed and payment of their remuneration shall cease, except if the Court prescribed otherwise;
 - (3) *repealed.*
- (c) The Court may appoint a liquidator to replace a liquidator who resigned.
- (d) Without derogating from the Court's powers, it may – on the petition of at least five unit holders who hold at least five percent of the units –
- (1) make any order on the matter of the fund's liquidation;
 - (2) remove a liquidator and appoint a liquidator in his place, if it concluded that the unit holders' interest is liable to be injured.
- (e) The liquidator of a fund shall redeem the fund units at the time of liquidation.

Realization of assets of the fund under liquidation

109. (a) The assets of a fund for the purpose of liquidation shall be realized in a manner and during a period that the liquidator deems effective for the protection of the unit holders' rights, on condition that the realization of assets be completed until the liquidation date.;
- (b) The provisions of sections 276, 288 to 291 and 310 to 312 of the Companies Ordinance shall apply to the liquidation of a fund, mutatis mutandis.
- (c) The Fund Manager shall submit a liquidation plan for the Trustee's approval no later than one week from the delivery of notice to the Authority as stipulated in section 106; should the Trustee approve the liquidation plan, the Fund Manager will submit it to the Authority; the liquidation plan will not be open to public scrutiny
- (d) Should a cash balance remain in the liquidator's possession following the liquidation date, it shall handle it as instructed by the Trustee after consultation with the Authority Chairman or a staff member authorized by him for this purpose; should liabilities exceeding the amount of a fund's cash balance remain – the liquidator shall

defray the difference from its own means.(e)The Minister of Finance may set other dates and issue additional provisions regarding the asset realization of a fund which is not listed on a stock exchange, in general, specifically for high-tech funds or for other types of funds.

Conclusion of liquidation

110. Immediately following the fund's liquidation and asset realization as stipulated in section 109–

- (1) the liquidator shall submit to the Authority and to the Stock Exchange a report regarding the realization of the fund's assets remaining after the liquidation date, how cash balances or liabilities as stipulated in subsection 109 (d) were handled, and liquidation expenses
- (2) the validity of the fund agreement shall lapse;
- (3) the fund's books shall be kept for a period of seven years following the completion of the liquidation.

General Meeting

111. (a) (1) A Fund Manager may call a General Meeting of unit holders;
- (2) the Trustee or at least five unit holders who hold at least twenty percent of the number of units, or with Trustee approval – at least five unit holders which hold at least five percent of the number of units, may demand that the Fund Manager call a General Meeting of unit holders; the Fund Manager shall call the meeting not later than twenty-one days after the day on which the demand was delivered;
 - (3) if the Fund Manager did not call the meeting within the time said in paragraph (2), whoever demanded that it be held – but not fewer than five unit holders said in paragraph (2) – may themselves call the meeting, on condition that it be held sooner than three months after the demand was delivered; the Fund Manager shall pay to the persons who called the meeting – out of his means – reasonable expenses that they incurred in calling it.
- (b) *Repealed.*
- (c) The quorum at a General Meeting for the adoption of an extraordinary resolution under sections 102(a) and 103(3) shall be at least one hundred unit holders who hold not less than 50% of the units, and at a deferred meeting at least fifty unit holders who hold not less than 25% of the units.
- (d) If the total number of unit holders is smaller than the quorum under subsection (c),

the quorum at a General Meeting for the adoption of an extraordinary resolution shall be –

- (2) under sections 102(a) and 103(3) – at least 50% of all unit holders who hold not less than 50% of the units and at a deferred meeting at least 25% of all unit holders who hold not less than 25% of the units.
- (e) For purposes of this section, "**unit holder**" – a person who holds certification from a Stock Exchange member that he holds units through him, or a person registered as a unit holder in the Fund Manager's unit holders register; if a unit holder redeemed or sold

units after he received the certification and before the General Meeting –

- (1) he shall so announce at the beginning of the meeting;
 - (2) the Stock Exchange member who issued the certification shall inform the Trustee that the units have been redeemed or sold, and the Trustee shall so announce at the meeting.
- (f) Each unit gives the right to one vote.
- (g) Units held by a person that controls the Fund Manager, an employee of the Fund Manager, an officer of the Fund Manager, a person engaged by the fund Manager in the fund's portfolio management, the employee of a person so engaged and a corporation controlled by any one of these, shall not transfer voting rights.
- (h) The Trustee shall participate in meetings of unit holders, but he shall not have the right to vote.
- (i) The provisions of the Companies Law in respect of General Meetings shall apply, mutatis mutandis, to General Meetings of unit holders, except if this Law provides otherwise.
- (j) The Minister of Finance may prescribe, in regulations, that a different number of unit holders constitute a quorum under this section.

Notice of a General Meeting

112. (a) A Fund Manager shall publish an announcement in a newspaper that a General Meeting of unit holders has been called in order to adopt an extraordinary resolution under sections 102 and 103(3), and he shall deliver a copy thereof to distributors, to the Trustee and to the Authority; the Fund Manager shall send the announcement to unit holders who hold units through him at their addresses that are known at that time,

and he shall inform a distributor through whom units are held, by a written notice addressed to him, that he must send a copy of the announcement to the unit holders; immediately after the Fund Manager informed him as aforesaid the distributor shall send the announcement to the unit holders who hold units through him, at their known addresses at that time; an announcement of a meeting of unit holders of a closed fund shall also be sent to the Exchange.

- (b) The time and place of the meeting and particulars of the matter for which it is called shall be stated in the announcement that is published in a newspaper and sent out as said in subsection (a); the notice shall also include the main points of the resolution, adoption of which is proposed, the planned date for its implementation, an explanation of the proposed resolution and the quorum required for its adoption.
- (c) The meeting shall not be sooner than seven days after publication in a newspaper and not later than fourteen days after that day.
- (d) Not later than on the second business day after an extraordinary resolution was adopted, the Fund Manager shall deliver a report to the Authority and to the Stock Exchange and he shall publish the resolution adopted by the meeting and the planned date for its implementation in a newspaper.
- (e) Notice to unit holders that a General Meeting not under subsection (a) was called shall be published by the Fund Manager in a newspaper and the time and place of the meeting, as well as particulars of the matter for which it was called shall be stated in it; the Fund Manager shall deliver a copy of the notice to the Trustee and to the Authority.

Notice of a transfer of the management of a fund

- 112A.(a) A Fund Manager shall submit to the Authority, to the Stock Exchange and to distributors a disclosure regarding the transfer of a fund managed by it to the management of another Fund Manager and about the appointment of a person, other than an employee of the Fund Manager, to manage all or part of the investment portfolio of the fund under his management, or regarding the termination of the contract with such person, and shall publish in a newspaper a disclosure regarding the transfer of the management of a fund under its management to the management of another Fund Manager or regarding the appointment of another company to manage the investment portfolio of a fund under its management. .
- (b) The Fund Manager shall send the disclosure regarding the transfer of the

management of a fund under its management to another Fund Manager or regarding the appointment of another company to manage the investment portfolio of a fund under its management to the unit holders who hold units through him according to their known addresses at that time, and he shall inform distributors through whom units are held, by a written notice addressed to them, that they must send a copy of the notice to the unit holders; immediately after the Fund Manager informed him as aforesaid a distributor shall send the notice to the unit holders who hold units through him at their known addresses at that time;

- (c) The Minister of Finance shall prescribe the particulars to be included in the notice under this section and the times for its submission and publication.

Announcement of a change of name of a Fund Manager or of a fund

112B.(a) A Fund Manager shall submit to the Authority and to the Stock Exchange a written report of a change of its name or of a change of name of a fund under its management.

- (b) The Fund Manager shall send the report said in subsection (a) to the unit holders who hold units through him, at their addresses known to him at that time, and he shall inform the distributor, through whom units are held – by a written notice addressed to him – that he must send the report to the unit holders; when a distributor has received a said notice, he shall, immediately after he received the notice, send the report to the unit holders who hold units through him, at their addresses known to him at that time.

Saving of transaction

113. A transaction in the assets of a fund shall not be void only because its performance constitutes a violation of provisions of this Law.

CHAPTER NINE A: OFFERING UNITS OF A FOREIGN FUND

Interpretations

113A. In this chapter –

“regulatory agency ” - a body which is charged with, under the laws of the country in which it operates, permitting the offering of foreign fund units to

the public in that country;

“foreign fund units” – units which impart the rights in a foreign fund or shares in a foreign fund, should the foreign fund be a corporation;

“country of origin” – the country in which a permit was granted by the regulatory agency to offer foreign fund units to the public;

Foreign Fund Manager - a corporation which the regulatory agency in the country of origin approved to manage mutual funds and offer them to the public;

foreign fund – an arrangement or corporation, the goal of which is conducting collective securities investments and generating collective profits their holding and transactions in them, which was established in a foreign country under its laws; for this purpose, “security” – including options and futures as defined in section 64(b).

Offering foreign fund units to the public

- 113B. (a) Foreign fund units shall not be offered to the public, however the Minister of Finance may prescribe criteria as stipulated in section 113C(a)(1) which, if met, the Authority may permit the offering of such units to the public, and solely if they are offered under a permit granted by the regulatory agency in the country of origin.
- (b) The criteria mentioned in subparagraph (a) can also refer to the offering of units in a fund listed on a stock exchange or regulated market outside of Israel, by way of their listing on a stock exchange in Israel.
- (c) The Authority may choose not to permit the offering of foreign fund units, even if the criteria mentioned in subparagraph (a) are met, if it is of the opinion, based on information brought to its attention, that there are reasonable grounds for concern that the interest of the investing public in Israel is not adequately secured, after giving the Foreign Fund Manager a proper opportunity to state its case.

Foreign fund regulations

- 113C. (a) The Minister of Finance, upon consultation with the Authority and with the approval of the Knesset Finance Committee, may set provisions regarding the offering of units of a foreign fund to the public, which will adequately secure the interest of the investing public in Israel, including –
- (1) Criteria for offering units of a foreign fund to the public;
 - (2) Obligations and conditions that will apply to offerors of units of a foreign fund to the public.
- (b) Regulations under subparagraph (a) can be drafted in general or for types of funds and can refer to, *inter alia*, the country of origin, the law under which a foreign fund was established or under which it operates, the oversight of the foreign fund, fund attributes or the attributes of the Fund Manager.

Application of legal prescriptions to foreign funds

- 113D. (a) Provisions under the sections stipulated below shall apply to a foreign fund unit, a foreign fund and a Foreign Fund Manager, *mutatis mutandis*, and including the changes stipulated below as if they were a unit, fund and Fund Manager, as applicable:
- (1) section 41;
 - (2) section 42 –
 - (a) subsection (d) – the opening section until the words “and subject to the conditions permitted”;
 - (b) subsection (d1);
 - (c) provisions under subsection (e) regarding the conditions under which a distributor may collect fees from the unit buyer and regarding the maximum rate of such fees and the manner in which they are calculated;
 - (3) section 44(a) – the closing section beginning with the words “a distributor shall not refuse” shall apply to a foreign fund, and solely if a distributor is entitled not to distribute any foreign funds;
 - (4) section 72A(a);

- (5) section 72B – shall also apply to the prospectus of a foreign fund and any disclosure, opinion or certification included in it, to the annex of the said prospectus as well as to the report the Foreign Fund Manager submits to the Authority under this Law;
 - (6) section 73(b) through (e); and solely if there is not anything in it to prevent a Foreign Fund Manager from publishing a statement that is mandatory under the laws that apply to it in the country of origin and in a manner in which it is compelled to comply;
 - (7) section 73A;
 - (8) section 82;
 - (9) section 83 (a) – the opening section until the words ”under this Law”.
- (b) The provisions stipulated in subsection 114 and those of Schedule One below, as applicable, shall apply to violations of the provisions included in subsection (a):
- (1) regarding violation of the provisions under section 42(d) and (e) – item (10) in Part One, item (8) in Part Two, item (7) in Part Three;
 - (2) regarding violation the provisions under section 72A(a) – item (5) in Part One;
 - (3) regarding violation of the provisions under section 73(b)(1), (c), (c1), and (c2) – item (21) in Part Two;
 - (4) regarding violation of the provisions of section 82(a) and (b) – item (28) in Part Three;
 - (5) regarding violation of the provisions under section 82(c) - item (26) in Part Two.

Mandatory notice

- 113E. (a) Should the provisions under Section 113B(a) cease to exist, including a criterion among the criteria set under its authority, under section 113C(a)(1), the Foreign Fund Manager shall notify the Authority of this, immediately upon its becoming aware of this..
- (b) The Minister of Finance may set provisions in regulations regarding the giving of such notice to the Authority, including regarding the manner notice

is given and dates of implementation.

Provisions regarding the correction of defects

113F. Should the Authority become aware, either through notification under 113E or otherwise, that the provisions of section 113B(a) ceased to exist, including a criterion of the criteria set under its authority, under section 113C(a)(1), or should the Authority become aware that a foreign Fund Manager violated a provision which applies to it under sections 113C(a)(2) and 113D(a), the Authority may instruct the Foreign fund Manager to correct the defect within a period of time to be determined.

Provisions regarding the discontinuation of a public offering of foreign fund units

113G. The Authority may instruct a Foreign Fund Manager, after giving it a proper opportunity to state its case, to discontinue the offering of units of a foreign fund to the public, within a period of time to be determined, should one of the following occur:

- (1) The Foreign Fund Manager failed to correct the defect in the time period set by the Authority as stipulated in section 113F;
- (2) The regulatory agency in the country of origin rescinded or suspended its approval to offer foreign fund units;
- (3) The foreign fund units listed on a stock exchange in Israel and were delisted from either the stock exchange or from a regulated market outside of Israel.

Provisions regarding delisting

113H. Should the Authority instruct a Foreign Fund Manager to discontinue the offering of units of a foreign fund to the public in Israel as stated in section 1113G, and the units were listed on a stock exchange in Israel, the Chairman of the Authority may instruct the stock exchange to delist the units, within a period of time to be determined.

Arrangements to secure rights

- 113I. A stock exchange in Israel shall prescribe rules in its bylaws to secure the rights of unit holders of a foreign fund bought on the exchange, should the units be delisted from it; for this purpose, “by-laws” -stock exchange by-laws as its meaning in section 46 of the Securities Law.”

CHAPTER TEN: IMPOSITION OF FINES BY THE AUTHORITY

Monetary composition

114. If a person violated any of the provisions under this Law that apply to it as specified in Schedule One (in this Chapter: violator and violation, respectively), the Authority may impose fines on the violator and the provisions of Chapter Eight "C" of the Securities Law shall apply to this matter, *mutatis mutandis* and with the changes specified in this Chapter.

Amount of monetary composition

115. (a) The amount of monetary composition to be imposed on a violator under this Chapter shall be the amount specified in Schedule Two according to the Part of Schedule One, in which the violation he committed is specified.
- (b) The amount of monetary composition to be imposed under this Chapter on a violator who is a Fund Manager or Trustee shall be as set under Schedule Two according to the net value of the assets of the funds that it manages or for which it is Trustee; for this purpose, "**net value**" – the net value on the last trading day of the month before the date on which the violation was committed.

Reduced amounts

116. (a) The Authority does not have the right to impose fines lower than the amounts specified in Schedule Two, except under the provisions of subsection (b).
- (b) The Minister of Finance may, with the consent of the Minister of Justice, designate cases, circumstances and considerations, because of which it shall be possible to reduce the amount of fines specified in Schedule Two by maximum rates that he shall prescribe.

Violation of the same provision in several funds

117. The Authority Chairman may prescribe that a person who violated the same provision in respect of several funds or in respect of several unit holders be deemed to have committed one violation, if the violation was committed on the same day and because of the same cause.

Change of Schedule One and of Schedule Two

118. The Minister of Finance may – by order on a proposal by the Authority or in consultation with it, with the consent of the Minister of Justice and with approval by the Knesset Finance Committee – change Schedule One and Schedule Two, on condition that the amount of fines prescribed in Schedule Two not exceed NS 2 million.

CHAPTER TEN "A": IMPOSITION OF ADMINISTRATIVE MEANS OF ENFORCEMENT BY THE ADMINISTRATIVE ENFORCEMENT COMMITTEE

Definitions

119. In this Chapter –

"**the Committee**" – the Administrative Enforcement Committee appointed under section 52FF(a) of the Securities Law;

"**violation**" – an act or omission that is one of the following:

- (1) it is specified in Schedule Three;
- (2) it is included in the list of acts or omissions determined by the Authority under section 120A, that whoever committed them did not act with caution, in good faith and with diligence, as a reasonable Fund Manager or Trustee would have done under similar circumstances.

Application of provisions to an inquiry into a violation and to an administrative enforcement proceeding

120.(a) If a person committed a violation, the provisions of Chapter Eight "D" of the Securities Law that apply to violators and to violations of provisions enumerated in Part Three of Schedule Seven of the said Law shall apply to the violator and to the

violation, mutatis mutandis and with the changes specified in this section.

- (b) The provisions of section 52AAA(a) of the Securities Law shall apply to the imposition of fines under this Chapter, as specified below:
 - (1) in respect of a violator who is an individual employee of a body corporate in which he is not an officer– in the maximum amount of NS 25,000;
 - (2) in respect of a violator who is a different individual– in the maximum amount of NS 1,000,000;
 - (3) in respect of a violator that is a body corporate – in the maximum amount of NS 5 million.
- (c) In respect of the time limit for the imposition of fines under this Chapter, the provisions of section 52GGG(a) to (c) of the Securities Law that apply to violations enumerated in Parts One, Two or Three of Schedule Seven of the Securities Law, respectively, shall apply to violations enumerated in Parts One, Two or Three of Schedule Three.
- (d) The provisions of section 52LLL of the Securities Law shall apply to violators and violations, but the maximum amount of fines, which under that section can be imposed on the General Manager of a body corporate, shall not exceed half of the amount said in subsection (b).

List of acts or omissions that evidence a fault in respect of caution

120A. For the purposes of this Chapter the Authority shall determine a list of acts or omissions that evidence that a Fund Manager or Trustee who performed them did not act with the caution, good faith and diligence, with which a reasonable Fund Manager or Trustee would have acted under similar circumstances; a said list shall be posted on the Authority's Internet site and shall go into effect 30 days after it was posted, but a change in the list shall not apply to a pending Administrative Enforcement Proceeding; notice that the list was posted, of every change therein and of the date of their effect shall be published in the Official Government Gazette.

Indemnification and insurance are prohibited

- 120B.(a) Notwithstanding the provisions of any statute and without derogating from the provisions of sections 262 to 264 of the Companies Law –
- (1) a proceeding under this Chapter and under Chapters Ten and Eleven "A" (in this section: proceeding) must not be insured, whether directly or indirectly;

- (2) an insurance contract for an insurance event that is a proceeding is void;
- (3) a body corporate shall not indemnify and shall not pay – directly or indirectly – fines that was imposed on anybody else, and a controlling member of a body corporate shall not indemnify and shall not pay – directly or indirectly – fines that was imposed on the body corporate, on a senior officer of the body corporate or on an employee of the body corporate;
- (4) a provision or undertaking to indemnify for a proceeding is void.
- (b) (1) Notwithstanding the provisions of subsection (a), it is possible to indemnify or insure a person for payments to a person injured by a violation said in section 52BBB(a)(1)(a) of the Securities Law or for expenses that he incurred in connection with a proceeding held on his matter, including reasonable legal expenses, including Advocates' fees, also by means of indemnification in advance.
- (2) An undertaking to indemnify or insure an officer of a body corporate under paragraph (1) shall be of no effect, except if the by-laws of the company include an explicit provision that permits that.

Change of Schedule Three

120C. The Minister of Finance may – by order, on the Authority's proposal or in consultation with it, with the consent of the Minister of Justice and with approval by the Knesset Finance Committee – change Schedule Three.

CHAPTER ELEVEN: PENALTIES

121., 122. and 123. *Repealed*

Violations with criminal intent

124. (a) Whoever did one of the following shall be liable to one year imprisonment or to a fine six times the fine set in section 61(a)(4) of the Penal Law:
- (1) he violated provisions of section 3;
 - (2) he served as Trustee or Fund Manager without having received the Authority Chairman's approval or after the approval lapsed;

- (3) he violated provisions under section 21;
 - (4) he served as Director or appointed a Director or held a position or employed a person in violation of provisions of a section after the Authority suspended him from his position under section 23(a);
 - (5) he offered units otherwise than under a prospectus, publication of which the Authority had permitted;
 - (6) *repealed*
 - (7) he violated provisions of section 58;
 - (8) he violated provisions under section 67;
 - (9) he violated provisions of section 68;
 - (10) he violated provisions of section 69;
 - (11) he violated provisions of section 76(a) or (d);
 - (12) he violated provisions under section 79;
 - (13) he violated provisions of section 80;
 - (14) he violated provisions of section 81;
 - (15) *repealed*;
 - (16) he violated provisions of section 99(b);
 - (17) he violated provisions of section 108(e);
 - (18) he violated a provision enumerated in Schedule Three or in Schedule One, other than the provision said in item (1)(i) of Part Two of the said Schedule;
 - (19) *repealed*
- (b) Whoever did anything with the intent to prevent or obstruct a violation inquiry proceeding or an administrative enforcement proceeding under Chapter Eight "D" of the Securities Law, as made applicable in Chapter Ten "A", shall be liable to three years imprisonment or to a fine two and a half times the fine said in section 61(a)(4) of the Penal Law, and if it is a body corporate – to five times the fine said in that section.

Offenses intended to mislead or defraud

125. Whoever who committed any of the violations enumerated in section 124 in order to cheat or mislead a unit holder or a person who considers acquisition, redemption, purchase or sale of a unit shall be liable to five years imprisonment or to a fine ten times the fine set in section 61(a)(4) of the Penal Law.

Fine for ongoing violation

126. In the case of an ongoing violation, the Court may impose – for each day on which the violation continues and in addition to any other penalty – a fine at the rate of one fiftieth the fine that it is authorized to impose for that offense.

Liability of corporate officers

- 126A. (a) A corporate officer must supervise and do everything possible to prevent violations under section 124(a) by the corporation or by any of its employees; violators of this provision shall be liable for half the fine prescribed for that offense; for purposes of this section, "**officer**" – a manager active in the corporation, a partner other than a limited partner, or a clerk responsible on behalf of corporation for the area in which the offense was committed.
- (b) If violation under section 124(a) was committed by a corporation or by one of its employees, the assumption is that a corporate officer violated his obligation under subsection (a), unless he proves that he did everything possible to fulfill this obligation.

127. and 128. *Repealed*

CHAPTER ELEVEN "A": ARRANGEMENT IN ORDER TO ABSTAIN FROM PROCEEDINGS OR TO STOP PROCEEDINGS, SUBJECT TO CONDITIONS

Definitions

128A In this Chapter –

"**proceedings**" – a proceeding of inquiry into a violation or an administrative enforcement proceeding under Chapter Eight "D" of the Securities Law, as made applicable in Chapter Ten "A", or a criminal investigation under section 56C of the Securities Law, as made applicable in section 97A(c), as the case may be;

"**violation**", "**offense**" – as defined in section 97A(a)..

Power of the Authority Chairman and of a District Attorney to contract arrangements in order to refrain from conducting proceedings or to halt proceedings subject to conditions

128B. The power vested in the Authority Chairman and in District Attorneys to contract arrangements in order to abstain from conducting proceedings or to halt proceedings conditionally, as the case may be, according to the provisions of Chapter Nine "A" of the Securities Law, shall be vested in them in respect of violations or offenses, and the provisions of the said Chapter shall apply to this matter, *mutatis mutandis*.

CHAPTER TWELVE: MISCELLANEOUS PROVISIONS

Keeping the fund's books and demands by the Authority for information

129. (a) A Fund Manager shall keep the fund's books so that they include all the information about the fund, and he shall keep them for at least seven years; for this purpose, "**fund's books**" – where particulars about the fund, the assets held in it, the transactions carried out for it, the decisions adopted in connection with its management are recorded, including computer reports that include particulars of the said categories, as well as additional particulars prescribed by the Minister of Finance.
- (b) The Authority may order how a Fund Manager must store data from the fund's books; a said order shall be published in the Official Government Gazette.
- (b1) The Authority or an employee whom it authorized for that purpose may demand information from a Fund Manager about him or about the fund and data included in the fund's books and they may order him how to deliver the said information or data and they may set a time for their delivery.
- (c) *repealed*

Offering units or shares of a foreign fund

129A. *repealed*.

Service of documents by the Authority by secure e-mail

129B. The provisions of Chapter Seven "B" of the Securities Law shall apply, mutatis mutandis, to notices, orders, demands and all other documents that the Authority or an employee whom it authorized may serve under this Law on a Fund Manager or Fund Trustee.

Transitional provisions

130. (a) (1) A trust agreement signed under the provisions of the Joint Investment Trusts Law 5721-1961 shall, from the day on which it goes into effect, be called a fund agreement;
- (2) if a fund agreement does not, twelve months after this law went into effect, comply with the provisions of section 5, the Authority Chairman may petition the Court that it order the Fund Manager and the Trustee to amend the fund agreement, as required under this Law.
- (b) The tenure of a company that served as Trustee immediately before this Law went into effect shall lapse twelve months after regulations under section 9 go into effect, if by that date it does not comply with the provisions of section 9; if the fund has more than one Trustee, the tenure of the Trustee for whom any of the provisions of section 9(d) do not hold true shall lapse within 90 days after this Law went into effect.
- (c) If a company that was a Fund Manager immediately before this Law went into effect does not comply with provisions under section 13 within twelve months after regulations under section 13 went into effect, the Authority Chairman may petition the Court that it order as said in section 15(c)(2).
- (d) The provisions of sections 16(a) to (c), 17(b) and 19(a) and (c) shall go into effect six months after this Law went into effect.
- (e) If, on the day on which regulations under section 62 go into effect, a Fund Manager holds in one or more funds under his management securities, foreign securities or units (hereafter: assets) in proportions that are greater than those set in the said regulations, he shall –
- (1) not acquire any of those assets as long as the proportion held by him exceeds the permitted proportion;
- (2) sell part of those assets, so that at the end of twelve months after those regulations went into effect their proportion does not exceed the permitted proportion.
- (f) The provisions of this Law shall not impair the validity of a participation certificate

that was lawfully issued before this Law went into effect.

Fees

130A. The Minister of Finance may make provisions about fees to be paid to the Authority.

Special report in respect of Amendment No. 32 of the Income

Tax Ordinance

130B. (a) No later than three business days after the Income Tax Ordinance Amendment Law (Amendment No. 132) (Amendment) 5763-2002 (hereafter: the Amendment) is published, the Fund Manager shall submit a report to the Authority and to distributors through whom units are held, stating the taxation track he chose for the fund, and an information bulletin that specifies the main characteristics of each taxation track, unless he distributed a said notice and information bulletin before the Amendment was published.

(b) The Fund Manager shall send the notice of the taxation track selected for the fund and the information bulletin said in subsection (a) (in this section: track selection notice) to unit holders who hold units through him, and the distributor shall send the track selection notice to the unit holders who hold units through him, to their addresses known at the time, not later than seven days after the track selection notice was submitted to the Authority; if the Fund Manager submits notice of a change in the track selection to the Authority, the Fund Manager and the distributors shall send notice of a change in the track selection to unit holders not later than three days after the report was submitted to the Authority.

Implementation and regulations

131. (a) The Minister of Finance is charged with the implementation of this Law and he may – on the Authority's recommendation or after consultation with it and with approval by the Knesset Finance Committee – make regulations on any matter connected to its implementation.

(b) The Minister of Justice may make regulations on legal procedure for petitions submitted to the Court under this Law.

Amendment No. 14 of the Securities Law

132. *(The provisions of this section have been incorporated in our translation of the Securities*

Law 5728-1968 – A. G.)

Repeal

133. The Joint Investment Trusts Law 5721-1961 is repealed; however –

- (1) section 10 of the said Law shall remain in effect until regulations to be made under sections 42 and 43 of this Law go into effect;
- (2) section 14 of the said Law shall remain in effect until regulations to be made under sections 62 of this Law go into effect.

Saving of effect

134. The regulations specified below shall remain in effect, as they are on the day on which this Law goes into effect or with changes that will be made under it, as long as they are not repealed:

- (1) Securities Regulations (Particulars of the Prospectus of a Joint Investment Trust, its Structure and Form) 5730-1969;
- (2) Joint Investment Trusts Regulations (Ways of Publishing Unit and Redemption Prices and List of the Fund's Assets) 5722-1961;
- (3) Joint Investment Trusts Regulations (Preparation of Annual Report) 5730-1970;
- (4) Securities Regulations (Periodic and Immediate Reports of a Joint Investment Trust) 5748-1987;
- (5) Joint Investment Trusts Regulations (Holding Foreign Currency) 5741-1980;
- (6) Joint Investment Trusts Regulations (Acquisition of Foreign Securities) 5749-1989.

Effect

135. (a) This Law, except section 82 thereof, shall go into effect on October 2, 1994.
(b) Section 82 shall go into effect on the day on which this Law is published in the Official Government Gazette.

Publication

136. This Law shall be published in the Official Government Gazette within thirty days after its adoption.

SCHEDULE ONE

(Section 114)

Part One

- (1) It failed to include in the fund agreement a detail that it should have included according to the provisions of section 5;
- (2) it failed to submit the fund agreement to the Authority for registration before it issued the first unit, or it failed to submit to the Authority an amended fund agreement before the change went into effect, in violation of the provisions of section 8(a);
- (3) it failed to make the fund agreement available for perusal by the public in the head offices of the Fund Manager or of the Trustee, in violation of the provisions of section 8(b);
- (4) it failed to deliver a copy of the fund agreement or of any change thereof to a unit holder on its demand, in violation of the provisions of section 8(c);
- (5) it failed to submit a report, notice, document, explanation, specification or information to the Authority at the time set therefor, in violation of the provisions of sections 16(a1), 34(a), 52, 54(b), 61(c), 71(a) or (b), 72, 77(c), 78(e), 80(c), 100(f), 101(d), 110(1), 112(d), 112A or 112B, or it submitted a report, notice, prospectus or other document not according to provisions under sections 72A and 131(a), or it failed to include in a report, notice, document or other information that it submitted to the Authority a particular that it should have included in them according to provisions under the said sections, on condition that a special demand to state the particular is prescribed under those sections;
- (5a) he concurrently served as Director or Investment Committee member of more than two additional investment management companies, in violation of the provisions of sections 16(c) and 20(b2), or he served as Audit Committee member in violation of the restrictions prescribed in section 20A(d);
- (5b) it failed to record minutes of a Board of Directors meeting, as required in section 17(c), of a Board of Directors Committee meeting, as required in section 19(d) or of an Audit Committee meeting, as required in section 20A(j);

- (5c) it failed to comply with a demand made it under section 23B2(e);
- (6) it failed to give the Fund Manager or the Authority Chairman a report on the holdings of means of control in the Fund Manager or other particulars designated by the Authority Chairman at the time set therefor, in violation of the provisions of section 23F;
- (7) it failed to include in a prospectus a particular that he should have included according to the provisions of sections 26(a), 27(a) or 29(d);
- (8) it failed to emphasize a particular in a prospectus in the manner prescribed by the Authority, in violation of the provisions of section 27(b);
- (9) it failed to publish a notice or a report in a newspaper at the time prescribed therefor, in violation of provisions under sections 31(b), 61(c), 72(a) or 112A, or did not include in a said publication a particular that he should have included in it according to provisions under the said sections;
- (10) it failed to publish the unit prices or the redemption prices of an open fund according to provisions under section 42(e) or failed to publish the value of the unit of a closed fund according to provisions under section 50(b), or he published unit prices or redemption prices of an open fund or the value of the unit of a closed fund that were not calculated according to provisions under section 43(b) or 50(b), as the case may be;
- (11) it failed to give the Fund Manager notice of the units that he holds or of a change in their number in the manner and at the time prescribed therefor, in violation of provisions under section 71(c);
- (12) it was present or voted at a meeting about the approval of a transaction with securities issued by a body corporate in which it is an interested party, in violation of the provisions of section 81A;
- (13) it failed to inform the Trustee or failed to announce at a General Meeting of unit holders that a unit holder sold or redeemed units after he received certification of the holding from a Stock Stock Exchange member, in violation of the provisions of section 111(e)(2);
- (14) it insured, indemnified or paid fines in place of another, in violation of the provisions of section 120B.

Part Two

- (1) It failed to comply with an order or demand specified below in the manner and within the period prescribed in it:

- (a) an order by the Authority to change the name of a fund, given under section 6(b);
 - (b) an order by the Authority Chairman to correct a fault, given under section 15(a);
 - (c) an order by the Authority or by an employee that it authorized for this matter to submit a report or to publish it in a newspaper, given according to sections 34(b), 72(b) or (d) or 78(g);
 - (d) an order by the Authority to publish a correction to a prospectus or a corrected prospectus or to include in them additional particulars, given under section 35(a);
 - (e) an order by the Authority Chairman to interrupt an offering to the public of units in an open fund or to interrupt their redemption, given under section 48(a)(1) or (3);
 - (f) a demand by the Authority or by an employee that it authorized for that matter to give the Authority a written explanation, specification, information or documents in connection with particulars included in a report or notice under this Law, given under section 72(c);
 - (g) an order by the Authority to publish a correction in respect of a misleading particular in a publication connected to the fund, given under section 73(d);
 - (h) a demand by the Authority Chairman or by an employee whom he authorized for this matter to provide particulars on a matter that concerns the fund or its management, given under section 78(h);
 - (i) an order by the Authority in respect of the manner of activity of the Fund Manager and Trustee, of their officers or of persons employed by them, in order to assure the orderly operation of the Fund Manager and Trustee and protection of the unit holders' interests, given under section 97(b);
 - (j) an order by the Authority on the manner in which a Fund Manager shall keep data from the fund's books, given under section 129(b), or a demand by the Authority or by an employee whom it authorized for this matter to provide information connected to the Fund Manager or the fund or data included in the fund's books, given under section 129(b1);
- (2) it violated provisions under sections 13(c1),16(a), (b), (c) or (d), 19(a) or 20(b1) or (b2) about the composition of the Fund Manager's Board of Directors or of the Investment Committee, the qualifications of Directors or of members of the Fund Manager's Investment Committee or restrictions on service on the Board of Directors or on the Fund Manager's Investment Committee;
 - (3) it failed to transfer management of the funds to another Manager within the period prescribed by the Authority Chairman, in violation of the provisions of section 15(d);

- (4) it violated the provisions of section 16A(2) or (3) on restrictions on the service of a General Manager, on the service of a Board of Directors chairman and on vesting powers of the General Manager;
- (5) it violated the provisions of section 17 about meetings of the Fund Manager's Board of Directors or violated the provisions of section 20(c) or (d) about meetings of the Investment Committee;
- (6) it violated the provisions of section 18(2), (4), (5), (5a), (5b) or (8), by the failure of the Fund Manager's Board of Directors to exercise one of its responsibilities under the said section during a period of not more than six months;
- (7) it offered units to the public before it published a notice in a newspaper, in violation of the provisions of section 31(c);
- (8) it collected commission from the purchaser of a unit not according to the provisions under section 42(e);
- (9) it failed to transmit to the Fund Manager, through the Clearing House, the total of orders for units or the total of orders for redemption that the distributor received, in the manner prescribed under section 44(b)
- (10) for units of a fund under his management it accepted payment not in cash, in violation of the provisions of section 44(c);
- (11) it failed to continue to offer units of an open fund to the public in violation of the provisions of section 46(g)(1);
- (12) it failed to respond uniformly to orders for units, in violation of the provisions of section 46(h);
- (13) on the day on which units of a closed fund were offered it failed to perform the acts enumerated in section 53(a)(1) or (2). or it failed to allocate the offered fund units in the manner stated in the prospectus, in violation of the provisions of section 53(b);
- (14) for a fund under its management it bought or held assets in violation of the provisions under section 59;
- (15) it performed a transaction said in section 18(6), (7) or (7a), even though the transaction was not approved in advance by the Board of Directors or by one of its committees, in violation of the provisions of section 60;
- (15a) it violated the provisions of section 20A(b)(1) or (2) by failure of the Audit Committee that it appointed to discuss the internal auditor's work program or ways to correct shortcomings that were found, or it violated the provisions of section 20A(b)(5) by failure of the Audit Committee that it appointed to discuss a contract with a trading company;

- (15b) it violated the provisions of section 20A(c) or (d) in respect of the composition of the Audit Committee that it appointed and of restrictions on service on it;
- (15c) it violated the provisions of section 20A(g) or (h) in respect of meetings to be held by the Audit Committee;
- (16) it violated the provisions of section 61 by having in the fund under its management the value of an asset or of a kind of assets below or above the proportion determined in the fund's investment policy, the digression not exceeding 5% of the net value of the fund's assets, and restrictions said in that section were not observed;
- (17) it violated the provisions under section 62 by having, in the fund under its management, a proportion of securities of a body corporate or a proportion of the value registered for trading or a proportion of some other asset in excess of the maximum proportion prescribed by the Minister of Finance by not more than half the maximum proportion or 5% of the net value of the fund's assets, and a restriction said in that section was not observed;
- (18) it lent securities held by a fund under its management for short sale transactions or carried out a short sale transaction for the fund under its management in violation of the provisions of section 63;
- (19) it bought, sold or created options or futures for the fund under its management in violation of the provisions of section 64;
- (20) it took credit for a fund under its management, in violation of the provisions under section 65;
- (21) it published something in connection with a fund in violation of the provisions of section 75;
- (21A) it failed to participate in or failed to vote at the holders meeting and proceedings of a corporation, which issued securities that are held by a fund under its management, in violation of regulations made under section 77 prescribed by the Minister of Finance in this Schedule;
- (22) it failed to submit to the Authority a report in which it gave notice that in its opinion the system of means under section 78(a)(3) suffices to assure what is said there, or it failed to specify the provisions it gave the Fund Manager in order to assure the aforesaid, in violation of the provisions of section 78(e)(1), or it failed to act in connection with the report according to the provisions of section 78(e)(2);
- (23) it failed to order the Fund Manager, in writing, to correct shortcomings that it found in the management of the fund, it failed to in a said order prescribe a date for correction of the faults or did not transmit a copy of the order to the Fund Manager's Board of Directors, in

- violation of the provisions of section 78(d);
- (24) it paid the Trustee's remuneration or the Fund Manager's remuneration out of the fund's assets, not as prescribed in the fund agreement, in a prospectus or report, in violation of the provisions of section 80(a)(1), or it paid commissions and other expenses connected to the execution of transactions for the fund out of the fund's assets, not as specified in a prospectus or report, in violation of the provisions of section 80(a)(2), or the Fund Manager failed to defray the excess expenses deducted from the assets of a fund under its management, in violation of the provisions of section 104A(d);
 - (25) it charged a unit holder for the cost of correcting records kept by a distributor for correction of a mistake in the unit price or in the redemption price, in violation of the provisions of section 80A;
 - (26) it paid or collected a commission in violation of the provisions of section 82(c).

Part Three

- (1) It appointed a person without the qualifications prescribed under section 9(c) to deal with the obligations and responsibilities of a Trustee;
- (2) in a position that involves making decisions about the management of a fund's investment portfolio it employed a person who does not have a portfolio management license, in violation of the provisions of section 13(c)(1);
- (2a) it failed to appoint a chairman of the Board of Directors, in violation of the provisions of section 16A(1);
- (2b) it appointed an outside director without having obtained the Trustee's approval thereof, as required under section 16(a1);
- (3) it failed to appoint an Investment Committee, in violation of the provisions of section 20(a);
- (3a) it failed to appoint an Audit Committee, in violation of the provisions of section 20A(a);
- (4) in a position that involves making decisions about the management of a fund's investment portfolio it employed a person for whom what is said in paragraphs (1) and (2) of section 22 holds true;
- (5) it transferred means of control in a Fund Manager to a person who does not have a permit under section 23B, in violation of the provisions of section 23C;
- (6) it offered units to the public, including units or shares of a foreign fund, not according to a

- prospectus that the Authority permitted to be published, in violation of the provisions of section 25(a), or without approval of the Authority, in violation of provisions under section 113B(a);
- (7) it sold or redeemed units in an open fund at a price that is not as required under section 42(a) to (c), collected commissions at rates not as required under section 42(d) or sold or redeemed units in a closed fund at a price that is not as required under section 50(a) or (c) or 56(b);
 - (8) it refused to distribute units in violation of the provisions of section 44(a);
 - (9) it failed to transfer to the account of the Fund Manager or to the account of the fund through the Clearing House an amount of cash equal to the unit price, in the manner prescribed under section 45 or on the day set therefor under section 46(d), or did not transfer to the account of the fund an amount that the distributor transferred to the Fund Manager's account in violation of the provisions of section 45;
 - (10) it sold or redeemed units of an open fund not on days in respect of which it must calculate the purchase price and the sale price of the fund's assets, or he sold or redeemed fund units on fixed dates that are not the dates prescribed according to the provisions of section 47, in violation of the provisions of section 46(a);
 - (11) it redeemed a unit of an open fund even though it had not received orders from the distributor to do so, in violation of the provisions of section 46(b), or did not redeem a unit of an open fund according to orders from the distributor in the manner prescribed in the said section, or did not transfer the amount for the redemption of a unit to the unit holder on the day on which the Fund Manager transferred the said amount from the fund's account to the distributor, in violation of the provisions of that section;
 - (12) it failed to transmit to the Clearing House an order for a unit or an order to redeem a unit that it had received at the time set therefor, in violation of the provisions of section 46(c);
 - (13) it acquired units of a related fund in violation of the provisions of section 49(c);
 - (14) on the day for the allocation of units in a closed fund it failed to transfer to the fund's account a cash amount equal to the price of the units allocated to a client, in violation of the provisions of section 53(a)(3), or did not transfer to the Fund Manager's account on the said day a said amount in the manner prescribed under section 53(c);
 - (15) it failed to redeem units of a closed fund according to a demand from the unit holder at the redemption date prescribed in the fund agreement, in violation of the provisions of section 56(a), or it failed to redeem a said unit according to the conditions prescribed in the fund agreement under section 56(c) or (d);

- (16) it failed to redeem units of a closed fund according to a demand from the unit holder in the manner prescribed under section 56(a1), or it failed to transfer to the unit holder who had requested the redemption the amount that was transferred to him by the Fund Manager for the unit's redemption on the day on which the said amount was transferred to him, in violation of the provisions of that section;
- (17) it acquired units of a closed fund for that fund or sold units that had been acquired as aforesaid in violation of the provisions of section 57;
- (18) it offered a unit not for consideration in violation of the provisions of section 58;
- (19) it transferred units not according to the unit holder's written demand, in violation of the provisions of section 58A(a), or it failed to transfer units according to unit holder's written demand in the manner specified in the prospectus in violation of the provisions of section 58A;
- (20) it violated the provisions of section 61 by having in the fund under its management the value of an asset or of a kind of assets out of the total net value of assets of the fund under its management in digression – to excess or to shortage – from the proportion set in the fund's investment policy and the digression exceeded 5% of the net value of the fund's assets and restrictions said in that section were not complied with;
- (21) it violated the provisions of section 62 by having in the fund under its management an amount of securities of a body corporate or a proportion of a security out of the total net value listed for trading or the proportion of some other asset in excess of the maximum proportion set by the Minister of Finance, to an extent greater than one half the maximum proportion or greater than 5% of the net value of the fund's assets, and restrictions specified in the said section were not observed;
- (22) it bought for the fund an asset, the amount of which at the time of its purchase exceeded the maximum amount set under section 62(b) or it bought an asset for the fund or kept an asset in the fund not according to the conditions prescribed in the said section;
- (23) it held units of a fund under its management or held units of a fund for which he is the Trustee in violation of the provisions of section 68;
- (24) it paid commission out of the fund's assets for a transaction carried out for the fund not according to the provisions of section 69;
- (25) it failed to deposit cash out of the fund's assets with a bank in Israel or with a bank abroad in violation of the provisions of section 76(d);
- (26) it failed to fulfill its obligations or responsibilities under section 78(a)(1) to (4) and (a1), and for this purpose a repeated violation or a continuing violation during a period of more

than 45 days by the Fund Manager shall be deemed a violation of the provisions of the said section by the Trustee, unless the Trustee informed the Authority of the violation immediately after it learned of it; for this purpose, "**repeated violation**", "**continuing violation**" – within their meaning in section 52S of the Securities Law, as made applicable in section 114;

- (27) it mortgaged or attached the fund's assets not in order to carry out a transaction for the fund, in violation of the provisions of section 79, or not according to conditions set by the Minister of Finance under that section;
- (28) it offered a payment or some other benefit in connection with the purchase, redemption, sale or holding of units in violation of the provisions of section 82(a), or collected a commission in connection with the sale, redemption or holding of fund units in violation of the provisions of section 82(b);
- (29) it failed to give information or a document in violation of a demand from the Authority Chairman or from an Authority employee who was so authorized, which was addressed to a supervised factor, as defined in the Securities Law, in violation of the provisions of section 97A(b) or in violation of provisions under section 56A1 of the Securities Law, as made applicable in section 97A(c);
- (29A) it failed to appoint an accountant for the fund, in violation of the provisions of section 99(a);
- (30) it merged or split open funds not according to the provisions of section 100(a) to (d);
- (31) it failed to redeem the units of an open fund on the liquidation date, in violation of the provisions of section 108(e);
- (32) it failed to keep the books of the fund for a period of seven years after liquidation, in violation of the provisions of section 110(3);
- (33) it failed to call a General Meeting of unit holders within the time set therefor, even though there was a demand to that effect, in violation of the provisions of section 111(a)(2), or it failed to pay out of its means to people who convened a General Meeting for the reasonable expenses that they incurred in order to convene it, in violation of the provisions of section 111(a)(3);
- (34) it failed to participate in a General Meeting of unit holders, in violation of the provisions of section 111(h).

Schedule Two

Sections 115-116

1. Regarding Fund Managers and Trustees:

Total assets under management/ in trust (in NIS)	Violation of a provision in Schedule One, Part One		Violation of a provision in Schedule One, Part Two		Violation of a provision in Schedule One, Part Three	
	Rate of fine relative to asset value under management/ in trust	Minimum fine	Rate of fine relative to asset value under management/ in trust	Minimum fine	Rate of fine relative to asset value under management/ in trust	Minimum fine
For each shekel of assets under management/ in trust up to 50,000,000	1/1,000	20,000	1/400	50,000	3/800	75,000
For each shekel of assets under management/ in trust: 50,000,001 – 500,000,000	1/9,000		1/3,600		1/2,400	
For each shekel of assets under management/ in trust: 500,000,001 - 5,000,000,000	1/90,000		1/36,000		1/24,000	

For each shekel of assets under management/in trust above 5,000,000,000	1/450,000		1/180,000		1/120,000	
Maximum fine	200,000		500,000		750,000	

2. Regarding other corporations:

Amount of fine (NIS)		
Violation of a provision in Schedule One, Part One	Violation of a provision in Schedule One, Part Two	Violation of a provision in Schedule One, Part Three
200,000	500,000	1,000,000

3. Regarding individuals

Amount of fine (NIS)			
Violation of a provision in Schedule One, Part One	Violation of a provision in Schedule One, Part One	Violation of a provision in Schedule One, Part Two	Violation of a provision in Schedule One, Part Three
Corporate employee who is not an officer	10,000	15,000	20,000
Other individuals	12,000	25,000	50,000

SCHEDULE THREE

(Section 119)

Part One

- (1) It gave the fund a name that is likely to mislead, in violation of the provisions of section 6(a);
- (2) *deleted.*

Part Two

- (1) It violated the provisions of section 18(2), (4), (5), (5a), (5b) or (8), by the failure of the Board of Directors of the fund to fulfill one of its responsibilities under the said section during a period of more than six months;
- (2) it bought or sold securities traded on the Stock Exchange not according to provisions under section 21;
- (3) it held means of control in a Fund Manager to an extent that requires a permit from the Licenses Committee under section 23B without having received a said permit, or it did not comply with one of the orders that it was given under section 23E(a) to (c);
- (3a) it controlled a Fund Manager that is a significant financial body or held means of control in a said Fund Manager in violation of the provisions of section 23B2;
- (4) it accepted the management – whether by agreement or otherwise – of a fund from another Fund Manager, so that after it received the management its market share rose above 20% in violation of the provisions of section 23G(a), controlled Fund Managers so that its total market share was greater than 20% in violation of the provisions of section 23G(b) or did not comply with an provision from the Authority Chairman to reduce its market share or its total market share so that it will not exceed 20% within the instructed time period, in violation of the provisions of section 23G(c);
- (5) it acquired units of a related fund in violation of the provisions of section 49(c) and it should have known that there were circumstances because of which he was not allowed to acquire said shares according to the provisions of that section;
- (6) it offered a unit not for consideration in violation of the provisions of section 58 and it should have known that no consideration was being paid for the unit;
- (7) it took credit for a fund under its management in violation of the provisions of section 65 and it should have known that there were no conditions because of which it would have been allowed to take the said credit according to provisions under that section;
- (8) it made a transaction between its own account and the fund's account, in violation of the provisions of section 67;
- (9) it paid commission out of the fund's assets for a transaction that was carried out for the

- fund, not according to the provisions of section 69 and it should have known that the commission it paid was not in accordance with the said provisions;
- (10) it did not differentiate between the fund's assets and its other property, in violation of the provisions of section 76(a);
 - (11) *deleted*;
 - (12) it mortgaged or encumbered the fund's assets not according to conditions prescribed by the Minister of Finance under section 79, and it should have known that those conditions do not obtain;
 - (13) it disclosed the content of information or of documents that reached him by virtue of his position, in violation of the provisions of section 97(d);
 - (14) it failed to conclude the realization of the fund's assets by the liquidation date, in violation of the provisions of section 109(a);
 - (15) it voted at a General Meeting of unit holders, even though it had not announced at the beginning of the meeting that it had redeemed or sold units after it had received a Stock Exchange member's certification of its holdings with him, in violation of the provisions of section 111(e)(1);

Part Three

- (1) It made an arrangement to which this Law applies not by a joint investment trust fund that was founded in the manner prescribed in section 3;
- (2) it served as Trustee of a fund or as Fund Manager without having received the Authority Chairman's approval therefor, in violation of the provisions of section 9(a) or 13(a), as the case may be, or after the said approval lapsed according to the provisions of section 10 or 14, as the case may be;
- (3) it offered units to the public, including units or shares of foreign funds, not according to a prospectus that the Authority permitted to be published, in violation of the provisions of section 25(a), and it should have known that it makes an offering of units to the public not according to a prospectus that the Authority permitted to be published;
- (4) it published or included something about a fund that includes a misleading particular, in violation of the provisions of section 73(b)(2), and it should have known that that is liable to mislead a reasonable investor;
- (5) it included a misleading particular in a fund agreement, prospectus, report, notice or

document that under this Law is submitted to the Authority, in violation of the provisions of section 73A(a) and it should have known that that is liable to mislead a reasonable investor;

- (6) it included a misleading particular in an opinion, report, survey or certification that with its advance consent was included or mentioned in a prospectus or in a report, in violation of the provisions of section 73A(b), and it should have known that that is liable to mislead a reasonable investor;
- (7) it failed to submit to the Authority a report, notice, document, explanation, specification or information at the time set therefor, in violation of the provisions of sections 16(a1), 34(a), 52, 54(b), 61(c), 72, 77(c), 78(e), 80(c), 100(f), 101(d), 110(1), 112(d), 112A(a) or 112B, or it submitted a report, notice, prospectus or other document not according to the provisions of sections 72A and 131(a) and it should have known that that is liable to mislead a reasonable investor;
- (8) it paid expenses out of the fund's assets not according to the provisions of section 80;
- (9) it received a benefit in connection with the management of the fund or in connection with its position as Trustee of the fund not according to the provisions of section 81.