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## **Joint Investment Trust (Distribution Fees) Regulations, 2006<sup>1</sup>**

By virtue of my authority under sections 26, 42(e), 72(a), 82(c) and 131(a) of the Joint Investment Trust Law, 5754-1994 (hereafter — the Law), in accordance with a proposal of the ISA and with the approval of the Finance Committee of the Knesset, I enact the following regulations:

### **Definitions:**

1. In these regulations –

*"Bonds"* – with the exception of bonds given to realization or conversion into other securities;

*"Maximum Exposure to Shares Level"* – as defined in Regulation 1 of the Joint Investment Trust Regulations (Classification of Funds for Publications), 5768-2007 (hereinafter, "the Classification Regulations);

*"Rating Company"* – a company that rates debt according to the solvency of the bonds' issuer, authorized by the commissioner of capital market, insurance and savings in the Ministry of Finance, according to section 41A of the Income Tax Ordinance (Rules for Authorization and Management of Provident Funds), 5724-1964;

*"Exposure to Shares"* – repealed;

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<sup>1</sup> This translation already reflects amendments that were published on the Kovetz Takanot 7653 on May 5, 2016 according foreign fund unit offerings to the Israeli public, although these amendments will come into effect only on September 30, 2016.

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"*Commencement Date*" – within the definition thereof under Regulation 6;  
"*Shares*" - repealed;

"*Distributor*" – distributor that is not an investment marketer within the meaning thereof in the Regulation of Investment Advise Law.

"*Type of Fund*" –Type 1 Fund, Type 3 Fund, Type 4 Fund – accordingly;

"*Foreign Fund*" and *Foreign Fund Unit* " - as defined in Section 113A of the Law;

"*Activities in Derivatives*" – repealed;

" *Tracking Fund* " - as defined in the Classification Regulations;

"*Type 1 Fund*" – a fund for which the Maximum Exposure to Shares Level is 1 and whose fund manager is required, according to the fund's investment policy, to invest at least 85% of the fund's net value of assets in one or more of the following:

- 1) Bonds issued by the State of Israel, providing their date of redemption is no further then two years away from the date of their purchase by the fund, or that their interest rate is adjusted at least once a year;
- 2) Bonds rated by a rating company at the top of its grading scale, providing their date of redemption is no further then two years away from the date of their purchase by the fund;
- 3) Deposits;

" *Type 2 Fund* " – repealed;

"*Type 3 Fund*" – a foreign fund and a fund which is neither a Type 1 Fund nor Type 4 Fund;

"*Type 4 Fund* " – a cash fund, as defined in the Joint Investment Trust Regulations (Assets that Funds are Entitled to Buy and Hold and Their Maximum Proportion), 5755-1994

**Distribution Commission:**

2. (a) A fund manager may pay a distributor a fee as stipulated in Regulation 3, for units of a fund under the fund manager's management held by the distributor (hereinafter – distribution fee), and solely if the said distributor confirmed its approval to contract with any other fund manager asking to contract with it in a distribution fee agreement at an identical rate and terms, and for identical services.

(a1) A foreign fund manager is entitled to pay a distributor a fee as stipulated in Regulation 3, for units of a foreign fund for which the ISA approved their public offering under Section 113B(a) of the Law.

(b) Should a fund manager or a foreign fund manager fail to come to an agreement with a distributor regarding distribution fees for a fund under its management – as stipulated in sub-regulation (a) or a foreign fund under its management – as stipulated in sub-regulation (a1) –

(1) The distributor shall be entitled to charge unit-holders a fee equaling the distribution fees it would be entitled to charge the fund manager or the foreign fund manager, had an agreement been made between them, or a sum lower than this sum;

(2) Notwithstanding that stipulated in paragraph (1), if the fund is a fund mentioned in Regulation 5(3) or (5), the distributor is entitled to charge the unit purchaser or the unit seller a fee but solely for the transaction;

(3) Fees charged by a distributor under paragraphs (1) or (2) shall not be altered pursuant to fact that the units were issued by different fund managers, which did not

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enter a distribution fee contract with it, or pursuant to the fund being a foreign fund.

(c) The provisions of this regulation are not intended to prevent distributors from charging unit holders other fees for buying units, holding them or redeeming them, and solely if these fees are not altered pursuant to the fact that the units were issued by different fund managers.

(d) Notwithstanding the stipulations of sub-regulation (c), should a fund manager contract with a distributor for distribution fees as stipulated in sub-regulation (a), with respect to a Type 4 fund under its management, the distributor will not charge the unit-holder fees of any kind for the purchase, holding or redemption of the units.

### **Distribution fee rates**

3. A distributor shall not charge and a fund manager shall not pay a distribution commission, for each day a unit of a fund under fund manager's management is held by a distributor, in a sum that is in excess of a units redemption price published on that day; where there was no redemption price published on that day – the latest redemption price published prior to that date, and multiplied by on of the following, according to the type of fund as stated in the fund's prospectus or in the report submitted under the regulations 4 or 7:

- (1) Type 1 fund – 0.2%/365;
- (2) –deleted
- (3) Type 3 fund – 0.35%/365;
- (4) Type 4 fund – 0.1%/365.

### **Classification of funds**

4. A fund manager that manages a fund shall state in a fund's prospectus the classification of a fund; where the investment policy of a fund had been changed in a way that changes its classification, the fund manager

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shall state this change in investment policy as well as the new classification of the aforesaid fund in the report submitted under section 61 of the Law.

**Units exempt from commission**

5. A distributor shall not charge a distribution commission on the following units:
- (1) Units purchased by a portfolio manager for a client tied to him by an agreement for portfolio management, as defined under the Regulation on Investment Advice Law, however a distributor that has no holdings in a fund manager is authorized to charge a distribution commission for units purchased by a fund manager, controlled by him, for a client tied to a portfolio manager by an agreement for portfolio management;
  - (2) Units purchased by a unit owner prior to a commencement date, and which will show proceeds in the hand of the owner, created after the commencement date, as if created from units acquired prior to commencement date; however a distributor is authorized to charge a distribution commission for fund units purchased by the owner prior to commencement date, if on August 10, 2005, the fund has been managed by a fund manager controlled on that date by the same distributor or by a company controlling the aforesaid distributor, and on the date of charging the commission the fund is managed by a fund manager tied to a distributor by means of a distribution contract.
  - (3) Units of a fund or a foreign fund listed for trading on an exchange;
  - (4) Units of a held fund;
  - (5) Units of a tracking fund;
  - (6) Units held in a personally managed provident fund, as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005

**Effective date**

6. The effective date of these regulations is on April 1, 2006.

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7. Prior to the effective date, a fund manager shall submit to the ISA and the TESA, a report detailing all types of funds of all funds under its management.

Ehud Olmert  
2006. Minister of Finance  
Shvat, 5766

February 7,  
Tet