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Circular to Managers of Foreign Funds

Regarding the holding of a deposit and bank guarantee in Israel and payment of an annual fee by a foreign fund manager who has discontinued the offering of funds in Israel.

Background

Regulation 2 of the Joint Investment Trust Regulations (Foreign Fund Unit Offerings) – 2016 (hereinafter- "**Foreign Fund Regulations**") specifies that the Israel Securities Authority is authorized to permit a foreign fund manager to offer units of a foreign fund under its management to the Israeli public, if it is proven that, among other things, at the time the request was submitted the foreign fund manager made a cash deposit or deposit of securities in an account at a bank in Israel, to the benefit of the unit holders in Israel (hereinafter- "**a deposit**"), and also deposited a bank guarantee or alternatively made a cash deposit or deposit of securities at a bank in Israel attached by a lien the Authority (hereinafter- "**bank guarantee**"), in accordance with what is stated in Regulations 2(3) and 2(4) of the Foreign Fund Regulations.

In addition and in accordance with Regulation 2 (f1) of the Securities Regulations (Annual Fee) – 1989 (hereinafter- "**the Annual Fee Regulations**"), a foreign fund manager who offers units of a foreign fund under its management to the public in Israel is obligated to pay an annual fee.

Staff position

The purpose of the deposit and the bank guarantee is to ensure the rights of their beneficiaries to be reimbursed if they are so entitled. Accordingly, a foreign fund manager who no longer offers units of a foreign fund under its management to the public in Israel is to proceed as follows:

1. To continue holding a deposit for the benefit of unit holders at a bank in Israel as long as there are unit holders in Israel in funds that were offered to the public in Israel. However, in order not to excessively burden foreign fund managers and to achieve a fair balance between this need and the interest of protecting unit holders, the fund manager will have the right to withdraw the deposit at the end of a period of one year during which the units are no longer offered.

It is emphasized that in the report announcing the discontinuation of the offering of funds, the foreign fund manager must state the date on which it intends to withdraw the deposit.

2. To request from the Authority the return of the bank guarantee—whose purpose is to guarantee the regulatory obligations of the foreign fund manager—on the later of the following two dates:
 - a. The end of a period of 60 days after the foreign fund manager has ceased to offer units in Israel;
 - b. After it has paid the fee which it is obligated to pay according to the Regulations and any fine that it may be obligated to pay.

However, if the Authority has requested an injunction ordering the forfeiture of the bank guarantee according to Regulation 10 of the Foreign Fund Regulations and the court has rejected the request or has accepted it with regard to part of the amount of the guarantee – then on the date set by the court.

3. If the foreign fund manager has reported the discontinuation of the offering of units of a fund to the public in Israel during the course of the year, then the obligation to pay an annual fee will be subject to Regulation 2(g) of the Annual Fee Regulations, with the necessary changes, i.e. it will be obligated to pay the relative portion of the annual fee that applies to the fund according to what is stated in the Regulations.

Sincerely,



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