

September 10, 2019

10th of Elul 5769

Circular for Foreign Fund Managers

Clarification Regarding the Implementation of the Annual Fee Regulations for Foreign Funds

To

Foreign Fund Managers

Via Yael (Communication) System

To Whom it May Concern:

Background

Regulation (F1) of the Securities Regulations (Annual Fees) 5749-1989 (hereafter: “the Regulations”), provides as follows:

(F1) The following provisions will apply to a foreign fund manager, as that term is defined in section 113A of the Joint Investment Trust Law – whose fund units are offered for sale to the Israeli public:

- (1) A foreign fund manager will pay, for each such foreign fund that it manages, an annual fee. The fee will be paid to the Israel Securities Authority, in the amount established in the Second Addendum as the fee for funds classified as Level C [funds]:**

- (2) Notwithstanding the language of paragraph (1) above, such foreign funds, if the value of their units that are purchased in Israel does not exceed the amount established for Level A in the Second Addendum, will pay the fee amount established in the Second Addendum for Level A funds;** for this purpose, the term “value of their units that are purchased in Israel” shall mean the value of the units held by the unit-holders who purchased them in Israel as of December 31 of the year preceding the date of the payment of the

Investment Department

fee. Units purchased through a distributor in Israel shall be deemed to be units purchased in Israel. Regarding the fee to be paid on the first date following the grant of the Authority's permission to offer fund units (hereafter: "the Permit") – the term "value of their units that are purchased in Israel" shall refer to the value of the units purchased after the grant of such permit.

Additionally, the Staff Position 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, dated August 8, 2017 – provides as follows: "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.**

In light of the questions that it was asked, the Authority understands that it needs to clarify the relationship between various other provisions of the Annual Fee Regulations, and that which is required of a foreign fund manager.

The Staff's position

1. The provision that the fee to be paid on the first year after being granted permission by the Authority to offer units of any fund will be based only to the value of the units that were purchased after the grant of the permit: this provision will apply only during the first calendar year of the offering of fund units. Accordingly, during the first year, the grade established for the fund will be established in accordance with the value of the units purchased by distributors in Israel after the grant of the permit.
2. During the second year, the fund is liable for payment of the fee even if the fund did not raise any funds from the public pursuant to the prospectus. The amount of the fee will be in accordance with the value of all the holdings of units in Israel (including institutional holdings and units purchased prior to the grant of the permit?). Regarding this matter, it is clarified that the language of Regulation 2(f1)(2) – "[t]he units purchased through a distributor in Israel will be deemed to be units that were purchased in Israel" is intended to provide a clarification only, and does not restrict the broader definition of the units that were purchased in Israel, whether they were purchased before or after the grant

Investment Department

of the permit, and whether or not they were purchased through distributors in Israel, or purchased by Israelis other than through distributors in Israel.

3. The default position is that the fee to be paid by foreign funds will be based on their classification as Level C funds, unless a foreign fund manager can prove that the value of the holdings in the fund, held by unit-holders in Israel does not exceed the amount established for Level A funds – in which case, the fund is required to pay only the annual fee established for Level A funds. The foreign fund manager must submit a report on Form F204 “Foreign Fund Manager’s Notice of the Fund’s Level (Annual Fee)”, only if the fund is at the Level A level. Evidence of the value of the units held in Israel not being in excess of the threshold for the said level must be attached to this report. (For Israelis’ holdings that are held through banks – the proof will be provided in hard copies of statements of holdings in the Israeli banks, and confirmation from a law firm that this is an original copy of the relevant statement; and for holdings of Israelis other than through banks – the proof will be provided through confirmation from the fund manager’s auditor regarding the value of the holdings or confirmation that there are no such holdings).
4. Date for payment –
 - 4.1 In accordance with Regulation 2(a), the foreign fund managers must pay annual fees for each foreign fund that they manage and for each fiscal year, on August 1 of the relevant fiscal year.
 - 4.2 Nevertheless, in accordance with Regulation 2(h), during the first calendar year of the fund’s sales of units in Israel, if the date on which the fund began its distributions (meaning the date on which its units were first purchased following the grant of the permit) was later than June 30, the fund must make its first payment of the annual fee by January 31 of the following fiscal year. For later years, the date for payment will be August 1 of the relevant fiscal year, in accordance with the general rule established in Regulation 2(a).
5. The date and manner in which a fund’s grade is determined – The determination shall be made in accordance with Regulation 2(f)(2), which provides that the value of the units purchased in Israel is the value of units held by unit-holders as of December 31 of the year prior to the date on which the fee is paid.

5.1 Regarding the fee to be paid for the first time after the grant of the permit

- 5.1.1 A fund which has begun selling its units in Israel on a date **preceding June 30** – Because a fund which began operations on a date preceding June 30 must pay its fee on August 1, the fund's level cannot be determined based on the value of the units as of December 31 of the previous fiscal year. Therefore, the fund's level will be determined on July 1, in accordance with the value of the units held by unit-holders who purchased them in Israel as of June 30, less the value of the units that were purchased prior to the grant of the permit. Accordingly, the fund manager must report on the fund's said level by July 10. All this is subject to the provisions of section 3 above.
- 5.1.2 A fund which has begun selling its units in Israel **after** June 30 – The fund's level will be determined on January 1, in accordance with the value of the units that are held by the unit-holders who purchased them in Israel as of December 31, less the value of the units purchased prior to the grant of the permit. Accordingly, the final date for the reporting regarding the fund's said level (in accordance with Regulation 3(f)) is January 10. All this is subject to the provisions of section 3 above.

5.2 Regarding the fee to be paid starting with the second time the fee is paid

5.2.1 As stated, in accordance with the provisions of Regulation 2(f1)(2), a fund's level will be determined on January 1 of each year following its first year of sales of fun units in Israel, in accordance with the value of the units held by unit-holders who purchased them in Israel, as of December 31 of the year preceding the date of the payment of the fee. Accordingly, the fund manager must report on the fund's said level by January 10. All this is subject to the provisions of section 3 above.

Best regards,

Maya Gerty Gilboah
Legal Advisor

Supervision of Mutual
Funds Unit