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The directive has been extended by the Minister of Finance for an additional year until March 16, 2010

Israel Securities Authority

Disclosure regarding valuation data for Exchange Traded Note and index products in immediate reporting

Directive pursuant to Section 36A (b) of the Securities Law, 5728-1968

Explanatory Notes

Many issuers of Exchange Traded Notes (hereinafter or "ETN's") and index products¹ determine their legal commitment to the public of holders according to changes in certain indexes or in the prices of various base assets. In most cases the issuers obligate oneself to take various "covering actions" in order to meet his legal commitment to pay investors the index value at the time of redemption. This general commitment that provides insufficient details of the way in which the Company will invest the funds intended for payment to investors at the time of redemption. Moreover, the issuers do not report on a regular basis to the public the main economic features of the ETN's.

The ETN's are displayed as an instrument that strictly follows a certain index and achieves a yield similar to a holding of portfolio comprising the same index. It should apparently be possible to expect that ETN's and a holding in the share indexes will produce similar yields, in reality they don't.

On the one hand, issuers of ETN's commit the investor that he can convert the ETN at the value of the index. Guaranteeing the index is an important component of this type of security. Contrary to other index products, this is not a case of the issuer undertaking to "make the maximum effort" to achieve a certain yield (Best Efforts), but an actual legal commitment. Moreover, the value of the ETN is linked to the index

¹ As will be clarified later, our interest in this document is not confined to ETN but extends to all the various forms of them, such as: short ETN, commodity ETN, covered warrants, leveraged ETNs, complex ETNs, etc.

and does not usually include the trading costs involved in said covering (apart from isolated cases such as leveraged ETN's).

On the other hand, the investor does not get the same yield as from a holding in index assets. Various charges are deducted from the value of the ETN, such as a management fee, a conversion fee, and various interests (e.g. on leveraged ETN's). The investor also not infrequently receives short payments, for example a partial payment of a dividend (mainly in foreign indexes), a partial payment of interests (on short ETN's), and partial payment of dividend balances (currently, mainly on Israeli indexes).

Consequently, that various economic features of ETN's allow the issuer to deviate considerably from the yield the investor would have received if he had held index shares. Moreover, for such financial instruments, any receipt or deduction of a few percentages could materially affect the yield to the investor.

In view of this it is proposed that the company should disclose in its immediate reporting at the end of every trading day and no later than the beginning of the following trading day data such as any management fee accrued on an ETN, any dividend accrued on an ETN, etc., and any change in them. Due to the fact that many economic parameters changes every day, it is important for investors to be updated on a daily basis with this economic information. The list of components in the attached directive is not exhaustive. The company must therefore examine on a current basis whether other components, insofar as there are any, are of assistance in valuing the ETN's. Any such components are to be attached to said daily immediate report.

The disclosure required under the attached disclosure directive is significant information for a reasonable investor faced with an investment decision, as stated in Section 36 of the Securities Law. The reporting is required in the form of a daily update in view of the nature of these financial instruments, since the data on which it is based varies every day, and by attaching that data a clearer indication can be obtained in order to evaluate the ETN's. The purpose of the disclosure is to assemble all the parameters relevant to an ETN valuation and to make them more readily

available to the investor, when it would be difficult for him to obtain this important information by himself. It should be emphasized that the data required to be disclosed by this directive is essential for a daily valuation of the ETN and the disclosure is therefore important to the reasonable investor since these financial instruments are liquid and traded on stock exchanges and provide the investor with a daily redemption option. The proposed format will lead to uniformity in the disclosure requirements and will allow a comparison to be made between the various ETN's offered.

The disclosure requirement in this directive is the outcome of accrued experience of the information required by a reasonable investor to assess an ETN value. The list of information required was drawn up *inter alia* after consultation with the issuer's of the ETN's.

Israel Securities Authority

Disclosure regarding valuation data for Exchange Traded Notes and index products in immediate reporting

Directive pursuant to Section 36a (b) of the Securities Law, 5728-1968

Every company that issues ETN's or other index products must make an immediate report **at the end of every trading day and no later than the beginning of the following trading day** giving details of the ETN's relevant economic parameters. The data must be updated to the end of the previous trading day. In the case of reference assets with special trading hours (China or the United States, for example) a different reference time may be determined appropriate for the instrument's special characteristics and relevant trading location.

“Index products” – including convertible deposit notes, short ETN's, commodity ETN's, covered warrants, leveraged ETN's, and complex ETN's.

The company is required to provide details of the valuation of the Index products and to break this value down into the various relevant components. Thus, for example, if an Index product has accrued interest, a report must be made of the relative part of the value that it has determined can be attributed to such interest. Similarly, if a management fee is charged on an Index product, the amount of the deduction for management fees, in the aggregate, must be specifically stated.

Following is the information the company must report in the daily immediate reporting in respect of each Index products. Said reporting is to be made mutatis mutandis for each and every Index product.

It should be emphasized that this list is not exhaustive. The company must examine on a current basis whether other components, insofar as there are any, are relevant parameters in valuing the Index product. Any such components are to be attached to the daily immediate report, even if they have not been listed in this document.

The reporting must include the following information:

1. The security's number.
2. The type of Index product: – short, commodity, leveraged, complex, or deposit.

3. The reference index or asset.
4. The reference currency.
5. The exchange rate of the reference currency at which the c Index product value was determined.
6. The management fees (as a percentage) – at an annual and daily rate.
7. Accrued management fees, in index points.
8. The management fee coefficient (for inclusion in the formula).
9. The conversion fee (as a percentage).
10. Total accrued dividend in New Israeli Shekels,
11. The total accrued dividend, in index points.
12. The dividend coefficient (for inclusion in the formula).
13. The size of the spread below the LIBOR rate as a percentage (if the interest is relative to LIBOR).
14. The valuation of the Index product at the end of the last trading day or at a more appropriate time considering the nature of the instrument or the location in which it is traded.
15. The formula for calculating the value.

For Index products that are not ETN's, details must also be given of other relevant components, such as:

- A. For short ETN's, the following information must also be provided:
 1. The index value (upper threshold) at which a campus redemption will be made.
 2. The leverage rate.
 3. The current interest rate.
 4. The accrued interest rate per ETN, in index points.
 5. The accrued interest in New Israeli Shekels (for inclusion in the formula).
- B. For commodity ETN's, the following information must also be provided:
 1. The total accrued dividend in NIS
 2. The rollover coefficient (when the holdings are through contracts)
 3. The accrued interest per ETN in New Israel Shekels and the period during which it accrued
 4. The accrued interest rate, in index points

5. The accrued interest coefficient (for inclusion in the formula)
- C. For leveraged ETN's², the following information must also be provided:
1. The index value (lower threshold) at which a forced redemption will be made.
 2. The leverage rate.
 3. The current interest rate.
 4. The rate of interest deducted from the certificate, in index points.
 5. The total interest deducted from the certificate, in New Israeli Shekels.
- D. For complex ETN's (non-leveraged), the following information must also be provided:
1. Separate data must be provided on each of the indices comprising the complex ETN's, insofar as this is required.
 2. The initial weight of each index in the complex ETN.
 3. The weight of each index in the complex ETN, on the last trading day.
 4. The base index for each index in the ETN.
- E. For shekel-linked ETN's,³ the following information must also be provided:
1. The differential between the Bank of Israel interest rate and the foreign interest rate.
 2. The accrued interest per ETN in New Israel Shekels and the period during which it was accrued.
 3. The accrued interest rate, in index points.
 4. The accrued interest coefficient (for inclusion in the formula).
- F. For leveraged short ETN's, the following information must also be provided.

The directive takes effect on its publication date.

² These are complex ETNs that allow for aggressive exposure to a particular index through leverage.

³ These are ETN's that neutralize the exposure to changes in foreign currency exchange rates.

Illustrative Examples

ETN

Series number:	Accrued management fee, in index points
Type of certificate: ETN	11.87
Reference index: NASDAQ 100	Management fee coefficient: 0.99396
Reference currency: United States dollar	conversion fee: 0.1%
Reference currency exchange rate: 4.2 NIS/\$	Total accrued dividend, in NIS: 0.0414
Management fee (percentage): 0.45%	Total accrued dividend, in index points: 1.974

Formula for calculating the ETN's value:

$$\frac{[(\text{reference index} \times \text{management fee coefficient}) + \text{accrued dividend in pts}]}{200} \times \text{reference currency exchange rate}$$

Numerical example: (assuming the NASDAQ at 1965.2 pts.)

$$\frac{[(1965.2 \times 0.99396) + 1.974]}{200} \times 4.2 = \text{NIS } 41.06 \text{ nominal value}$$

Short ETN

Series number:	Accrued management fees, in index points: 0
Type of certificate: Short ETN	Management fee coefficient: 1
Reference index: TA 25 Index	Conversion fee: 0.2%
Reference currency: New Israeli Shekel	Total accrued interest, in NIS: 0.4647
Reference currency exchange rate: 4.2	
NIS/\$ Management fee (percentage): 0%	

Formula for calculating the ETN's value:

$$\frac{(\text{base price of the TA 25 X management fee coefficient}) - 1700}{100} + \text{Total accrued interest, in NIS}$$

Numerical example: (assuming the TA 25 Index is standing at 1120 points)

$$\frac{(1120 \times 1) - 1700}{100} + 0.1366 = \text{NIS 5.936 nominal}$$

Commodity ETN

Series number:	Accrued management fees, in index points: 0
Type of certificate: Commodity ETN	Management fee coefficient: 1
Reference index: Brent Crude Oil	Conversion fee: 0.1%
Reference currency: United States dollar	Total accrued interest, in NIS: 0.4647
Reference currency exchange rate: 4.2	Accrued interest coefficient, in index pts. 1.01697
NIS/\$ Management fee (percentage): 0%	Rollover coefficient: 0.896

Formula for calculating the ETN's value:

$$\frac{(\text{reference index X management fee coefficient})}{10} \times \text{accrued interest coefficient X rollover coefficient X reference currency exchange}$$

Numerical example: (assuming an oil contract standing at \$73.05)

$$\frac{(73.05 \times 1)}{10} \times 1.01697 \times 0.896 \times 4.2 = \text{NIS 27.95 nominal value}$$

Leveraged ETN

Series number:	Management fee coefficient: 1
Type of certificate: Aggressive complex ETN	Conversion fee:
Reference index: TA 25 Index	Accrued interest, in NIS: 0
Reference currency: New Israeli Shekel	Bank of Israel interest: 3.5%
Management fee (percentage): 0%	Spread: 1%
Accumulated management fee, in index points: 0	Debit interest coefficient: 1.046

Formula for calculating the ETN's value:

$$\frac{(\text{Latest index} \times 2 - \text{debit interest coefficient} \times \text{base index})}{\text{base index}} \times \text{management fee} = \text{Ex factor}$$

$$\frac{\text{Base index} \times \text{Ex factor}}{100} = \text{ETN price}$$

Numerical example: (Assuming the TA 25 Index standing at 1100 points and the latest index being 2200)

$$\frac{1100 \times 1.046 - (2 \times 2200)}{100} \times 1 = \text{NIS } 32.49 \text{ nominal value}$$