



MAOF Clearing House Ltd.

Self-Assessment for 2019

**In accordance with the Assessment Methodology
and Disclosure Framework of CPMI-IOSCO**

MAOF CLEARING HOUSE LTD

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Declarations of the MAOF Clearing House and Limitation of Liability

On September 30, 2020, the MAOF Clearing House Ltd. (“MAOF-CH” or “the Clearing House”) completed the self-assessment for 2019 of its implementation of the principles set forth by CPMI-IOSCO for financial market infrastructures in the PFMI (Principles for Financial Market Infrastructures) document.

The document below (“the Disclosure Document”) describes how the principles set forth by CPMI-IOSCO are implemented, as stated, by MAOF-CH as of December 31, 2019 (“the Assessment Date”), and has been prepared in accordance with the assessment methodology and the disclosure framework set forth by CPMI-IOSCO¹.

MAOF-CH has made the utmost effort to ensure that the information included in the Disclosure Document is accurate and current, as of the Assessment Date.

However, notwithstanding the aforesaid, errors, deficiencies and/or mistakes in the content of the information and/or in the Disclosure Document cannot be avoided entirely.

The information included in the Disclosure Document below has been provided “as is” and MAOF-CH does not guarantee the suitability of the information for any particular purpose. Nor does MAOF-CH guarantee that the information will be up-to-date at all times.

Considering the aforesaid, MAOF-CH, the companies of the Tel-Aviv Stock Exchange Ltd. (“TASE”) Group, their managers, employees or anyone acting for them, in their name or on their behalf, are not liable to any third party for any loss or damage caused as a result of use of the information contained in the Disclosure Document.

For the avoidance of doubt, if, subsequent to the Assessment Date, changes and/or updates have occurred with respect to the information on which TASE relied in the Disclosure Document, if there is a conflict between the contents of the Disclosure Document and the contents of TASE’s By-laws that are

¹ **Principles for financial market infrastructures: disclosure framework and assessment methodology**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. <http://www.bis.org/cpmi/publ/d106.htm>.



published on TASE's website, or between the contents of the Disclosure Document and its internal arrangements, then that which is set forth in these laws and arrangements will prevail over the contents of the Disclosure Document below.

The text in this disclosure document is an English translation of the original Hebrew disclosure document. In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail.

For any question, clarification or any other matter with respect to the Disclosure Document below, contact MAOF-CH or TASE through one of the communication options that appear on TASE's website at www.tase.co.il.



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Introduction

On April 2012, the Committee on Payment and Market Infrastructure (“CPMI”)², which operates under the Bank for International Settlements (“BIS”), together with the Technical Committee of the International Organization of Securities Commissions (“IOSCO”), also “CPMI-IOSCO,” published a document of principles for regulating the activities of financial market infrastructures – “Principles for Financial Market Infrastructure” (“PFMI”)³.

The PFMI document contains 24 core principles (“the Core Principles”) relating to a broad array of aspects intended to ensure the proper management and financial stability of the financial market infrastructures, and as a result thereof to also ensure the stability of the relevant financial market served by these infrastructures.

The financial market infrastructures (“FMI”) included in the document are: payment systems (“PS”); central securities depositories (“CSD”); securities settlement systems (“SSS”); and central counterparties (“CCP”).

MAOF-CH is obligated as a CCP to execute the settlement of transactions in derivatives (options and futures) settled through the Clearing House that were executed on TASE, all in accordance with the terms set forth with respect to this in the Clearing House’s By-laws.

As an FMI, MAOF-CH is required to perform and publish a periodic assessment using the assessment methodology and disclosure framework set forth by CPMI-IOSCO⁴, to examine the extent to which it applies the Core Principles, and to publish this for the benefit of the members of the Clearing House and the general public.

² Until September 1, 2014 it was called the CPSS Committee (Committee of Payments and Settlement Systems).

³ **Principles for Financial Market Infrastructures**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), April 2012. <https://www.bis.org/cpmi/publ/d101.htm>.

⁴ **Principles for financial market infrastructures: disclosure framework and assessment methodology**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. <http://www.bis.org/cpmi/publ/d106.htm>.



Therefore, on September 30, 2020, MAOF-CH completed the performance of its self-assessment for 2019, which was conducted in accordance with the methodology described above, and the highlights of which are described and set forth for the benefit of the public in this Disclosure Document below.



General Overview

The MAOF Clearing House Ltd. (“MAOF-CH” or “the Clearing House”) was established in 1993. The Clearing House is a private company limited by guarantee that was incorporated and registered in Israel and is wholly owned by the Tel-Aviv Stock Exchange Ltd. (“TASE”).

The Regulatory, Supervision and Control Framework

As a company registered in Israel, MAOF-CH is obligated to comply with the provisions of the Companies Law, 1999.

MAOF-CH operates as a settlement system under a license granted by the Israel Securities Authority (“the ISA” or “the Authority”) in accordance with the Securities Law, 1969 (“the Securities Law” or “the Law”).

The Securities Law regulates a wide range of aspects of the Clearing House’s activities, including arrangements relating to corporate governance, to the stability of the Clearing House, to settlement finality, to the obligations and rights of the Clearing House and the clearing members, as well as supervision and control arrangements for the Clearing House that are implemented by the Securities Authority.

Pursuant to its authority under Section 50C(b) of the Law, the ISA issued principles to ensure the proper operation of the Tel-Aviv Stock Exchange Clearing House Ltd. and the MAOF Clearing House Ltd. The principles adopt the Core Principles set forth by CPMI-IOSCO in the PFMI document, which aim to ensure the proper operation and financial stability of the Clearing House (“the Clearing Houses’ Stability Directive”).

On June 29, 2017 the ISA announced⁵ that MAOF-CH could be regarded as acting in accordance with the Core Principles.

⁵ The ISA’s announcement, as published by it, can be found on the Authority’s website at www.isa.gov.il.



Organizational structure

The organizational and operational structure of MAOF-CH relies on the organizational and operational structure of TASE (IT, human resources, etc.), and MAOF-CH has no employees or other resources of its own. The head of the Clearing House is a senior vice president of TASE. The Clearing House has 10 members, comprised of 9 commercial banking corporations and one nonbanking corporation.

Despite the Clearing House's reliance on the organizational infrastructure of TASE, it operates as a separate independent entity and has a separate and independent board of directors that can comprise a maximum of 15 directors. As of September 30, 2020, the board of directors of MAOF-CH comprises 4 directors⁶.

As of July 6, 2018, the board of directors of the Clearing House includes a maximum of 15 members. The members of the board of directors are appointed (and removed) by the general meeting, with at least three directors being independent directors and at least one director having professional qualifications. For these purposes, "professional qualifications" means an individual who serves on the board of directors of the company, where the board of directors of the company has confirmed, noting, inter alia, his previous and/or current employment, that he has experience in the capital market and clearing arenas.

Certain TASE management members were appointed by the board of directors of the Clearing House to serve in their positions for MAOF-CH as well, as is also required by the Clearing Houses' Stability Directive, including the Chief Risk Officer, the Compliance Officer and the Head of Information Technology. The other officers of TASE provide the Clearing House with services.

The operations of MAOF-CH also rely on the technological and physical infrastructure provided to it by TASE, as well as information security and cyber services, perimeter security and protection services and other services.

The Clearing House's risk management framework is managed separately, with the board of directors of the Clearing House being the ultimate authority for risk management at the Clearing House. Where there is a certain degree of reliance on policies, procedures, processes and controls that were set up and are

⁶ As of December 31, 2019, the board of directors of MAOF-CH comprised 5 directors.



executed by TASE, the board of directors of the Clearing House must adopt them and ensure that they include the unique aspects of the Clearing House's activities.

Description of the main services and products

MAOF-CH is responsible for the issuance of derivatives in the category of options and futures that are traded on TASE, for the settlement of transactions in derivatives that are traded on TASE and for their realization in accordance with their terms. The Clearing House is obligated as a central counterparty ("CCP") to execute the settlement of transactions in derivatives (options and futures) that are cleared by the Clearing House and which were executed on TASE, all in accordance with the terms set forth for this in the By-laws of the Clearing House. In addition, the Clearing House manages and controls the custody transfer services between the members of MAOF-CH.

Contents and Points of Emphasis

Structure and contents of the disclosure

The Disclosure Document below is divided according to Core Principles that are relevant to the Clearing House's activities, and each Core Principle is made up of several key considerations, which represent the different aspects of the Core Principle. Below are the Core Principles that are not relevant to the Clearing House's activities at the time of the assessment and are not included in the Disclosure Document:

- **Principle No. 10: Physical deliveries** – MAOF-CH does not execute physical deliveries.
- **Principle No. 11: Central securities depositories** – MAOF-CH is not a central securities depository.
- **Principle No. 12: Exchange-of-value settlement systems** – MAOF-CH is not an exchange-of-value settlement system
- **Principle No. 24: Disclosure of market data by trade repositories ("TR")** – MAOF-CH does not act as a TR-type infrastructure.

Other points

Where the Disclosure Document refers to policies, procedures, processes, controls and the use of systems which are carried out by TASE for MAOF-CH, these should be seen as being carried out by the Clearing House itself, even if this is not explicitly stated, unless otherwise stated.



Key Terms and Abbreviations

“TASE”	The Tel-Aviv Stock Exchange Ltd.
“MAOF-CH” or “the Clearing House”	The MAOF Clearing House Ltd.
“MAOF-CH”	MAOF Clearing House Ltd.
“TASE Clearing Houses”	TASE-CH and MAOF-CH
“the TASE Group” or “the Group”	TASE and the TASE clearing houses
“default event”	Per the meaning of the term in Core Principle Number 13
“Bank of Israel”	Per the meaning of the term in the Bank of Israel Law, 2010
“board of directors”	The board of directors of MAOF-CH
“Clearing Houses’ Stability Directive”	Principles to ensure the proper operation of the Tel-Aviv Stock Exchange Clearing House Ltd. and MAOF Clearing House Ltd. – Principles pursuant to Section 50C(b) of the Securities Law, 1968
“clearing order”	Per the meaning of the term in the Clearing House’s By-laws
“default arrangements”	Per the meaning of the term in the Clearing House’s By-laws
“clearing member” or “member”	An entity that has been accepted as a clearing member in accordance with the By-laws
“the Securities Law”	The Securities Law, 1968
“settlement window”	Per the meaning of the term in the Clearing House’s By-laws
“clearing day”	The day on which the Clearing House receives clearing orders and/or executes clearing actions
“head of the Clearing House”	The person who has been appointed by the board of directors, on the recommendation of the CEO of TASE, as chief executive officer of the Clearing House, or his stand-in
“RTGS system”	Per the meaning of the term in the Clearing House’s By-laws
“transactions in derivatives” or “MAOF transactions”	Transactions in options and futures, which have been purchased, written or transferred in the course of TASE trading, that are cleared at the Clearing House, and the monetary liabilities arising therefrom, as per the meaning of the term in the Clearing House’s By-laws
“clearing action”	Per the meaning of the term in the Clearing House’s By-laws
“ISA” or “the Authority”	The Israel Securities Authority, which was established pursuant to the Securities Law, 1968



BIS	Bank for International Settlements
CCP	Central Counterparty
CPMI	Committee on Payments and Market Infrastructures
CSD	Central Securities Depository
DVP	Delivery Versus Payment
FMI	Financial Market Infrastructure
IOSCO	International Organization of Securities Commissions
PFMI	Principles for Financial Market Infrastructures
RTGS	Real Time Gross Settlement

Detailed Assessment by Core Principle

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

The MAOF-CH By-laws cover all material aspects of MAOF-CH's activities. In its By-laws, MAOF-CH has set forth clear and detailed arrangements concerning the aspects of its activities, including clearing and settlement arrangements; settlement finality; the rights and obligations of MAOF-CH and its clearing members; access and participation requirements; collateral requirements; and arrangements to manage a clearing member default. MAOF-CH has a high degree of confidence of its ability to enforce its authority and to implement the arrangements that it has set forth in the By-laws at any time. MAOF-CH's By-laws are disclosed publicly on TASE's website.

Key consideration # 1:

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

MAOF-CH's By-laws cover all aspects of its activities and all of the services that it provides. As a CCP, MAOF-CH ensures the execution of transactions in derivatives (options and futures), all in accordance with the terms set forth for this purpose in the MAOF-CH's By-laws.

MAOF-CH's By-laws are consistent with the Securities Law and the provisions set forth by the ISA in the principles, which were prescribed for the Clearing House by virtue of the authority vested in the ISA under Section 50C(b) of the Securities Law.

The Securities Law sets forth a series of obligations that apply to MAOF-CH, including the obligation to establish principles that ensure the stability, efficiency and orderly operation of the Clearing House. Those principles are stipulated in the By-laws of MAOF-CH, which are determined by the board of directors of MAOF-CH. The Law determines that the Clearing House is subject to the supervision of the Authority, including as regarding the consistency of the Clearing House's principles with the Law. According to the Law, if the Authority believes that the Clearing House does not meet its obligations, it

may instruct the Clearing House to do so, by instructing the Clearing House to establish principles or modify them, and if the Clearing House fails to do so, the Authority itself may establish such principles.

The Securities Law grants the Clearing House strong defenses in order to enable it to provide its services, exercise its authority and enforce its arrangements at any time and with a high degree of certainty.

- The material aspects identified by MAOF-CH as fundamental to its proper, stable and safe operation are:**The Clearing House's obligation as a central counterparty (CCP)** – MAOF-CH is a central counterparty to transactions in derivatives and therefore acts as a counterparty in all transactions, provided that the conditions for this, pursuant to the MAOF-CH's By-laws, are met.. In the event that a clearing member is not going to be able to fulfil its obligations created as a result of its activities on MAOF-CH ("a defaulting member"), the Clearing House is required to fulfil all the obligations of the defaulting member toward the other clearing members, all in accordance with the terms set forth for this in the By-laws.
- **Settlement finality** – A clearing order that was received by the Clearing House is irrevocable and cannot be voided, reversed, or subject to stays, nor is there is any possibility of requesting the Clearing House not to execute a clearing action connected directly or indirectly to the clearing order. If a clearing action has been carried out, it is not possible to request the MAOF-CH to void it, other than in accordance to the By-laws (see also Principle 8).
- **Settlement finality in the case of the insolvency of a clearing member** – The Securities Law takes priority over any other insolvency law, giving MAOF-CH preference, including over a third party, when it comes to enforcing the settlement finality arrangements and to carrying out the defaulting member's clearing orders, received by MAOF-CH, provided that they were received prior to the determining date in the Law. Pursuant to the Law, MAOF-CH may complete the clearing actions related to those clearing orders even after the determining date in the Law.
- **Rights of MAOF-CH in the collateral pledged in its favor** – The assets serving as collateral are pledged in favor of MAOF-CH. By virtue of the Securities Law, a pledge on securities or funds, which serves to guarantee the obligations of a clearing member toward MAOF-CH, is also valid toward

other creditors of the clearing member. The charge will be deemed to be a first-ranking fixed charge, granted by the clearing member in favor of MAOF-CH, provided that MAOF-CH has control over the assets in one of the ways prescribed in the law. In addition, it is determined in the Securities Law that the realization of the charge in favor of MAOF-CH can be done by MAOF-CH itself, without a court order or an order of the chief execution officer, subject to the terms and conditions stipulated in the law.

- **Account settling arrangements and netting arrangements** – MAOF-CH's By-laws provide that, in the event of a member not fulfilling its obligations toward MAOF-CH and in other instances detailed in the By-laws, MAOF-CH has the right to set off any obligation of a member toward it, of any type whatsoever, against any obligation of MAOF-CH toward that member.
- **Default arrangements** – MAOF-CH has set forth in the By-laws its material arrangements with respect to its actions at the time of a default event⁷, including arrangements for the discontinuation of clearing services to the member, arrangements for early termination and calling for immediate repayment, collateral realization arrangements, arrangements regarding the realization of MAOF-CH's right of lien and offset and arrangements for the calculation of the charges of a defaulting clearing member (see also Principle 13).

Clearing House membership conditions – MAOF-CH has set forth in its By-laws the requirements for membership in MAOF-CH and the process for the approval of an application to be a clearing member (see also Principle 18).

Key consideration # 2:

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

MAOF-CH's By-laws and the arrangements set forth in its internal procedures are consistent with the Securities Law and the Clearing Houses' Stability Directive, as well as with other relevant laws and

⁷ A default event is in accordance with the definition found under Principle 13, later in this document.



regulatory directives, including the Companies Law with which the MAOF-CH is obligated to comply by virtue of being a company registered in Israel.

MAOF-CH has a policy and procedures for managing compliance risk and legal risk in order to ensure that its By-laws and its activities are consistent with relevant laws, regulatory directives and judgments, as well as to identify potential exposures as a result of changes in any of these. In addition, MAOF-CH obtains independent expert legal opinions in accordance with its needs and its discretion.

TASE's Compliance Officer, who was appointed by MAOF-CH's board to serve as its Compliance Officer, supervises and controls the activities of the Clearing House and ensures that it is in compliance with all the relevant laws and regulatory directives. The Compliance Officer reports to the board of directors on his activities.

MAOF-CH's board has the authority to approve any change or amendment to the By-laws. MAOF-CH has set forth procedures for ensuring that every change or update to the By-laws is clear, comprehensible and consistent with relevant laws, legal directives and judgments, and that MAOF-CH has the authority to enforce it.

Any proposal for a change or updates to MAOF-CH's By-laws is examined by the Legal Department, and, if relevant, by the Chief Risk Officer and the Compliance Officer.

Proposals for changes in the MAOF-CH By-laws dealing with risk management issues are reviewed and approved by the risk management committee prior to being submitted to the Board for approval. In addition, the audit committee reviews proposals for changes in the By-laws where there is a potential conflict of interests among the board members (see also Principle 2).

MAOF-CH has defined procedures and processes for examining and approving other engagements with clearing members, suppliers, service providers and other entities.



Key consideration # 3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

MAOF-CH's By-laws are publicly disclosed on TASE's website, including information about amendments and updates made to them. In addition, material decisions of MAOF-CH's board are published on TASE's website, including decisions regarding amendments and updates to the By-laws.

Every proposed change to the By-laws of MAOF-CH is delivered to the clearing members ahead of the board's discussion and approval of the proposal, for their comments. Such comments may include, inter alia, requests for clarifications and/or modification of the wording of the changes for better clarity and coherence. Comments of the clearing members, should there be any, are reported to the board.

In addition, MAOF-CH allows clearing members to contact relevant professional parties at the Clearing House regarding any issue or matter relating to its activities.

MAOF-CH communicates with other market participants, who are not clearing members, regarding its By-laws, or regarding potential amendments and updates, at its discretion.

MAOF-CH, through TASE's website, provides the public with the opportunity to contact it using one of the means of communication published on the website.

Key consideration # 4:

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Since MAOF-CH's activities are conducted under the jurisdiction of the State of Israel, the Securities Law provides MAOF-CH with a high degree of certainty regarding the enforcement of its legal basis. In addition, MAOF-CH has a high degree of certainty that its activities will not be voided, changed or subject to stays by the courts in Israel, and in particular with respect to the actions that it takes at the time of a clearing member's insolvency.



As of the date of preparation of the Disclosure Document, it has not been determined by a court in a particular jurisdiction that any of the activities, agreements or laws of MAOF-CH in any matter relating to the key considerations presented under this Principle, and those presented under the other Principles, are not enforceable.

Key consideration # 5:

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

MAOF-CH's business activities come under the jurisdiction of the State of Israel alone.



Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

MAOF-CH operates under robust governance arrangements that clearly regulate the organizational structure and the responsibilities and roles of the MAOF-CH board of directors and its committees, management and departments. MAOF-CH's governance arrangements were determined in accordance with arrangements with which it is obligated to comply pursuant to the Securities Law and the Companies Law.

Key consideration # 1:

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

MAOF-CH's governance arrangements are consistent with the arrangements with which it is obligated to comply pursuant to the Securities Law and the Companies Law. TASE provides MAOF-CH with a supporting organizational infrastructure so that the Clearing House can execute its operations and comply with all the relevant laws and regulatory directives.

MAOF-CH's objective is to manage a clearing system, to provide accompanying settlement services and to carry out all actions necessary for this purpose, subject to the provisions of the Securities Law and its deeds of incorporation, and to act in a proper manner in order to secure the interests of the public.

MAOF-CH sees ensuring its proper operation, its financial stability and securing its ability to meet its obligations as a CCP as key goals, which serve the public interest in maintaining the security and stability of the financial market in Israel.

MAOF-CH sees the achievement of its business and strategic goals as an additional means to promote the public interest and to ensure its ability to maintain its financial stability, and to ensure the ongoing financing of its activities. MAOF-CH works to grow, develop and expand its services, and it also works to achieve the clearing systems' high operational efficiency and reliability.

MAOF-CH focuses on establishing an effective, broad and cross-organizational risk management system, in order to identify, map, monitor, assess and manage its risks in a way that will ensure its stability and will help it to achieve its strategic, business and operating goals.

Key consideration # 2:

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

MAOF-CH has clear, documented governance arrangements, which regulate the organizational structure, responsibilities and the obligations of the board of directors, the board's committees, management and other MAOF-CH departments. Information about MAOF-CH's organizational structure can be found on TASE's website to the extent that this information is relevant to the public. Additional information regarding MAOF-CH's governance arrangements is provided to its clearing members if requested, provided that this information is relevant to their activities at MAOF-CH.

These corporate governance arrangements include, inter alia, the following arrangements:

- A policy that regulates the work of the board of directors and its committees, including the responsibility and the role of each of them;
- A policy for examining decisions that may raise concern regarding a conflict of interests;
- The officers' compensation policy;
- MAOF-CH's risk management policy;
- The compliance and internal audit work framework.

MAOF-CH provides accountability to the clearing members, stakeholders and, where relevant, to the public, via publication of MAOF-CH board of directors' decisions on TASE's website, and via periodic financial statements.

Additionally, the offering prospectus of TASE includes a disclosure on MAOF-CH, as a wholly owned subsidiary of TASE. Any update to the prospectus is reported in accordance with the provisions of the Securities Law.

Furthermore, MAOF-CH's public disclosure regarding the manner in which it implements the Principles set forth by CPMI-IOSCO in the PFMI document, which is provided in this document, provides additional information about the activities of the Clearing House and the way in which it ensures its stability and security.

Key consideration # 3:

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

The regulation of the work, responsibility and role of the board of directors of MAOF-CH and its committees is set out in the Securities Law and the Companies Law and governed by an internal procedure and the procedures issued thereunder. The roles of the board of directors are also set forth in the Companies Law, the Securities Law, the Clearing Houses' Stability Directive and the Clearing House's deeds of incorporation.

The responsibility and commitment of MAOF-CH's board of directors include, inter alia, delineating policy and setting procedures for regulating the Clearing House's activities and its responsibility and commitment to supervise the implementation of this policy; supervising the activities of MAOF-CH's CEO; taking suitable supervision and control measures to ensure that MAOF-CH's stability is maintained; taking suitable supervision and control measures to ensure that MAOF-CH operates in a manner that ensures its effectiveness and proper and appropriate functioning; and approving MAOF-CH's rules and taking suitable supervision and control measures to ensure that the clearing members comply with the requirements of the law that apply to them, and with the Clearing House's rules.

The framework of the responsibility of MAOF-CH's board of directors includes the power to implement the company's policy and the ability to appoint and/or dismiss the Head of the Clearing House.

MAOF-CH has clear and meticulous procedures for identifying, managing and handling conflicts of interest of members of the board of directors in connection with MAOF-CH's activities. These procedures determine the circumstances that may give rise to a concern of a conflict of interest, as well as how the board of directors should manage and handle the situation should such a concern arise.

MAOF-CH's board has established several central committees: the audit committee, the compensation committee, the risk management committee and the default fund management and calculation committee. These committees support and assist the work of the board of directors, and are required to fulfill specific roles under the law, as detailed below:

Risk management committee – The roles of the committee are:

- To recommend a risk management policy and to supervise its implementation;
- To recommend to MAOF-CH's board of directors the strategy for managing each risk;
- To examine the effectiveness of MAOF-CH's risk management structure and its work framework;
- To examine and recommend the adoption of models, methodologies and different tools in the area of risk management.

Audit committee –

Works to examine the implementation of adequate control procedures in the company and is obligated to identify deficiencies in the management of the company's business and propose remedies. This, inter alia, taking into consideration reports of the internal auditor, the independent auditor and the Chief Risk Officer as well as reports of external audit functions and other experts.

Compensation committee –

The roles of the committee are to recommend a compensation policy for the officers to the board of directors and make decisions regarding the terms of office and employment of officers, all as set out in the Companies Law and the Securities Law.

The committee will give recommendations to the board of directors about setting a compensation policy for officers in accordance with the considerations set forth in the Companies Law, will examine

the implementation of the compensation policy and recommend its updating by the board of directors from time to time, as necessary.

Default fund management and calculation committee

The roles of the committee are to give recommendations to the board of directors about changes in the method of calculation and management of the default fund.

Key consideration # 4:

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of nonexecutive board member(s).

MAOF-CH's board can comprise a maximum of 15 directors. The members of the board of directors are appointed and/or removed by the general meeting, with at least three directors being independent directors and at least one director having professional qualifications. For these purposes, "professional qualifications" means an individual who serves on the board of directors of the company, where the board of directors of the company has confirmed, noting, inter alia, his previous and/or current employment, that he has experience in the capital market and clearing arenas.

As of December 31, 2019, the board of directors of TASE-CH comprises 4⁸ directors. MAOF-CH pays directors' compensation as set forth in the Companies Regulations (Rules regarding Compensation and Expenses of an External Director), 2000, and subject to the changes set out in the Authority's Directive to the Clearing Houses.

Additional information about the composition of the board of directors and on the members of the board of directors can be found on TASE's website.

⁸ As of December 31, 2019, the board of MAOF-CH comprises 5 directors.

Key consideration # 5:

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Members of management are chosen based on their proven qualifications and experience in their areas of expertise, via an orderly process, and they have broad and relevant knowledge in the areas of activity of TASE and MAOF-CH. The appointment of a management member and the determination of his salary require the approval of the board of directors and conform to the compensation policy adopted by the Group, as approved by the organs of the Company and TASE, including the general meeting of TASE and of the Clearing Houses.

The CEO of MAOF-CH is chosen by the Clearing House's board of directors and pursuant to the recommendation of the TASE CEO.

Members of management are required to meet the objectives set for them by MAOF-CH's board of directors, TASE's board of directors and TASE's CEO, in accordance with the Group's compensation policy, and are compensated based on said criteria subject to the approval of the Compensation Committee and the board of directors.

At least once every three years, the board of directors and the general meeting approve the compensation policy for the members of management on the basis of quantitative and/or qualitative criteria.

Key consideration # 6:

The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

MAOF-CH's board of directors is the ultimate authority for risk management at the Clearing House and for ensuring the stability and strength of the Clearing House. The risk management framework is set out in a compensation document that is approved by MAOF-CH's board of directors at least annually, and comprises the following principles:

Risk appetite and tolerance – MAOF-CH's risk appetite is set at the highest level for all Clearing House's activities, and the framework for the management of each risk needs to be determined and implemented in its light. At least once a quarter, the Chief Risk Officer reports to MAOF-CH board of directors on the extent to which the Clearing House is complying with the risk appetite limits that it has set. In addition, at least once a year, the MAOF-CH board of directors reviews and approves the policy for determining the risk appetite and the risk appetite statement.

Lines of defense – MAOF-CH's board of directors has set three lines of defense for the management of risks at the Clearing House (see also Principle 3):

- First line of defense – “Business lines”
- Second line of defense – “Risk management function”
- Third line of defense – “Internal audit function”

Framework for the management of each risk – MAOF-CH regulates the framework for the management of each risk and anchors it in the policy and procedures documents, which include, inter alia, the identification and characterization of the risk profile and the risk foci; setting areas of responsibility of the lines of defense in the risk management; measurement and assessment of exposures; defining measures to minimize and manage the risk; establishing processes for monitoring

and control and the relevant reporting lines. Once a year, MAOF-CH board of directors approves the policy for managing each risk.

The work framework of the Chief Risk Officer is governed by a dedicated policy document that organizes his/her areas of responsibility and activity for risk management, the roles of the risk management department, the work interfaces of the risk management function with the other lines of defense and the reporting framework to the relevant members of management, to the risk management committee and to MAOF-CH's board of directors. MAOF-CH's board of directors is required to examine and approve this work plan at least once a year (see Principle 3).

MAOF-CH's board of directors is responsible for ensuring the independence and authority of the Chief Risk Officer, and for ensuring that he has the necessary resources at his disposal in order to fulfill his duties. The appointment and dismissal of the Chief Risk Officer is done by TASE's CEO and with the approval of the board of directors, and the cessation of the Chief Risk Officer's service requires a detailed report provided to the MAOF-CH's board of directors.

MAOF-CH's board of directors is also responsible for ensuring the independence and authority of the internal auditor, and for ensuring that he has the necessary resources at his disposal to fulfill his duties. The work framework of the internal auditor has been set forth in a specific procedure and includes a review of his work plan and the approval of the board of directors, as well as an undertaking by the internal auditor to provide the board of directors with a detailed report regarding the review of his activities and the audit findings. The appointment and/or dismissal of the internal auditor will be done by MAOF-CH's board of directors.

Additional aspects of the risk management framework are provided in detail under Principle 3.

Key consideration # 7:

The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Before submitting any proposal for a change or an amendment to MAOF-CH's By-laws for approval by the board of directors, the said proposal is sent to the clearing members in order to receive their remarks or comments on the proposal. Should a clearing member submit comments about the proposal, his comments are brought before the board of directors during the meeting at which the proposal is discussed. The proposal is delivered to a large number of relevant recipients from among the members of MAOF-CH via a designated notification system.

The board of directors' agendas are sent to the ISA concurrently with their dispatch to the members of the board of directors.

The independent members of the board of directors, which are currently a majority of the board members, jointly and severally, represent the public interest at every meeting of the board of directors and its committees. Matters that raise concern of conflict of interests are also discussed and approved by the audit committee in which the members are only independent directors, in addition to the approval of the board of directors, in accordance with the conflict of interest procedure implemented in the Company. Amendments to MAOF-CH's By-laws are regularly published on the Company's website. According to the Clearing House's deeds of incorporation, prior to its approval by the board of directors, any change in the method of calculation and management of the default fund must be first approved by the default fund management and calculation committee that comprises a settlement expert, as well as by the audit committee, and the Clearing House members shall be entitled to present their position to the audit committee, verbally and in writing.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

MAOF-CH employs a comprehensive, cross-organizational risk management framework, which includes, inter alia, the definition of the Clearing House's risk appetite and the principles according to which each risk is managed. MAOF-CH board has the highest authority for risk management and has three lines of defense for the efficient and effective management of each risk. The goals of the risk management framework are to enable MAOF-CH to fulfill its duties as a CCP, to achieve its strategic and business goals and to ensure the stability of the Clearing House by employing an effective risk management system and strengthening its ability to identify, map, monitor and manage the different risks.

Key consideration # 1:

An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

MAOF-CH manages its exposures to the various risks based on the principles that were approved by the board of the Clearing House in its risk management policy document. Those principles determine that the framework for the management of each risk will prescribe a definition of the risk profile and identification of the risk foci, the areas of responsibility of the risk management lines of defense, assessment and measurement of exposures, the means for managing and minimizing the risk and the reporting lines between the functions that are involved in the management of the risk.

- The managed risks can be classified under four principal risk categories: **Financial risks;**
- **Business risks;**
- **Operational risks;**
- **Other risks.**

In addition, in order to ensure its proper operation and financial stability, MAOF-CH prepares for certain scenarios in which many risks may materialize at the same time, the essential ones being:

Default event of a clearing member – At the time of a default event, MAOF-CH is exposed to the materialization of many risks, such as credit risk, liquidity risk, market risk, business risk, and others. In order to handle a member's default event in a way that will ensure its proper operation and stability, the Clearing House has established default arrangements in its By-laws and in its internal procedures, which include, inter alia, arrangements for the discontinuation of MAOF-CH's services to the member; arrangements for early termination and call for immediate repayment; collateral realization arrangements; arrangements for the exercise of the MAOF-CH's right of lien and offset; and arrangements for the calculation of the defaulting clearing member's debts (see also Principle 13).

Business continuity and disaster recovery – MAOF-CH acts to ensure the continuity of its operations even in cases of essential operational failure, emergencies and disaster events. Therefore, MAOF-CH's board of directors has adopted the business continuity and disaster recovery plan established by TASE Group and approved by TASE's board. MAOF-CH's board of directors is required to review and approve the business continuity and disaster recovery plan that was prescribed and to re-adopt it annually (see also Principle 17).

The risk management policy stipulates the principles according to which the risks of MAOF-CH will be managed, the highlights of which are as follows:

Risk appetite– MAOF-CH's risk appetite is set at the highest level of the organization and in accordance with a policy established for this purpose and approved by the MAOF-CH's board of directors. At least once a quarter, the Chief Risk Officer reports to the MAOF-CH's board of directors regarding the extent to which the Clearing House meets the risk appetite limits that it has set. On an annual basis, MAOF-CH's board of directors approves the Clearing House's policy for determining the risk appetite and its risk appetite statement.

Areas of responsibility and authority – MAOF-CH's board of directors has ultimate authority for approving MAOF-CH's risk management policy and has three lines of defense for the management of risks and the implementation of the policy that was established, as follows:

- First line of defense – “Business lines”: This line of defense is responsible for the actual management of the risks inherent in the given activities, products and systems. This line of defense is responsible for implementing the policy that was established for the management of risk by MAOF-CH's board of directors and for recommending changes, should there be any. It is responsible for establishing procedures and processes for risk management and for the use of controls, systems and measures to identify, measure, monitor and minimize exposure to the risks. It is also responsible for sending reports to the board of directors and to the other lines of defense regarding all matters relating to its areas of responsibility in risk management.
- Second line of defense – “Risk management function”: This line of defense is responsible for supervising the implementation of the risk management policy approved by the board of directors; assists the first line of defense in managing the risks that are under its responsibility; is responsible for examining and challenging the efficiency and effectiveness of the risk management system, and adapting it to appropriate standards and practices; is responsible for examining and recommending changes to the risk management policy to MAOF-CH's board of directors; and is responsible for reporting to the Risk Management Committee and to MAOF-CH's board of directors in its areas of responsibility.
- Third line of defense – “The internal audit function”: This line of defense is responsible for performing an independent assessment of the effectiveness of the implementation of the risk management procedures and processes. It is also responsible for reporting to the board of directors and sending it a review of its activities and the findings that arise as a result of these activities.

The work of the Chief Risk Officer and the Risk Management department is outlined in a dedicated policy document, and the purpose of the policy is to regulate risk management work in practice and the manner in which it will be involved in the management of each risk. In addition, this policy defines the reporting lines of the various lines of defense to and from the risk management department. At least once a quarter, the Chief Risk Officer reports to the Risk Management Committee and the board of directors regarding changes in the risk profile and their compliance with the risk appetite.

Binding framework for the management of each risk – MAOF-CH has established for each identified risk, a policy, procedures, processes and controls, so that it will be able to effectively identify, map, measure, monitor and minimize its exposures.

MAOF-CH performs a comprehensive assessment to identify and characterize the risks for each new activity or product. In addition, the Clearing House performs frequent reviews in order to examine whether there have been changes in the risk profile with respect to existing activities and products.

The models and techniques used by MAOF-CH to measure the exposures and to manage the various risks are subject to the model risk management framework, which includes the periodic validation of MAOF-CH's material models and to periodic reviews.

As aforesaid, the risk management policy and the policy for the management of each risk must be approved by MAOF-CH board at least once a year.

Key consideration # 2:

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

MAOF-CH has stipulated in its By-laws arrangements for the execution of its activities, including provisions for handling non-compliance with such arrangements, as well as the obligations and the rights of all the clearing members and the Clearing House with regard to such activities and information on models and parameters that it uses in its risk management.

The By-laws provide for the management of the MAOF-CH collateral requirement (margin), including the requirement for each clearing member to participate in the default fund, as well as provisions regarding the deposit of margin with the Clearing House against the prescribed requirements. The margin requirements are calculated and determined in accordance with the risks inherent in each product and underlying asset, and the guidelines for their calculation are set forth in the By-laws and are also published on TASE's website. In addition, the level of participation of each clearing member in the default fund is determined in accordance with its average margin requirement over a defined short term, such that a clearing member will deposit more margin in the default fund the higher the exposure to the member is.

In the Clearing House's opinion, the Clearing House's requirement for collateral, which uses a margin model that is based on the clearing member's risk level, constitutes an effective incentive for the clearing members to manage and contain the risks that they are imposing on the Clearing House. Furthermore, The Clearing House may impose additional monetary charges on a clearing member, such as imposition of a monetary charge on a clearing member who fails to deposit the requisite collateral amount on the date prescribed by the Clearing House.

The By-laws and the information published on TASE's website provide the clearing members and their clients with a sufficient understanding of the risks that they are imposing on the Clearing House and risks that arise from the fact of their being members of the Clearing House, including those that are imposed on them by the other clearing members.

The Clearing House provides its members with the ability to establish various communication channels with professional parties at the Clearing House and at TASE to help them to understand and manage those risks.

Key consideration # 3:

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk management tools to address these risks.

The risk management framework of MAOF-CH also relates to risks that arise from its links with other entities:

- The Bank of Israel as a payments system through which the monetary settlement is executed – see Principle 9;
- The Bank of Israel as a party to a repo agreement with the Clearing House for the liquidation of securities deposited as collateral by the members with respect to their share in the default fund – see Principle 7;
- Banks that provide depository services for MAOF-CH's assets – see Principle 16;
- Service suppliers and outsourcing providers – see Principle 17;
- Other infrastructure bodies in the financial market – see Principle 20.

Key consideration # 4:

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

MAOF-CH makes a distinction between financial scenarios and operational scenarios that may prevent it from carrying out its operations and providing its critical services on an ongoing basis.

Operational scenarios:

TASE has developed and established for the entire Group operational plans to ensure the Group's recovery and business continuity in the event of a material operational failure, a disaster or emergency, a cyber-attack or as a result of any other event that has a material effect on the proper operation of the clearing systems.

TASE operates a geographically distant backup facility for all Group companies, which operates in parallel and in real time with the main facility. Backup is done in real time through the backup facility for all data traffic on the infrastructure systems of the Clearing House, in order to enable the swift duplication of the activity flowing into it.

The Clearing House performs exercises at different levels in order to test the survivability of its systems and the readiness of its emergency teams, and periodically performs a broad-scope exercise to replicate its activity to the back-up facility for several days of operation so as to ensure that it is able to reactivate the critical clearing systems within a time frame that does not exceed two hours.

Financial scenarios:

The Clearing House has defined the default scenario for a clearing member as a scenario that has the most material effect on its ability to continue to carry out its activities and to provide its critical services to the market. The Clearing House sees the closing of the first multilateral settlement window, after the default of a clearing member occurs, and the handling of the defaulting clearing member's open



positions, as significant stages in the management of the default event. MAOF-CH has established a broad, stable and clear framework for dealing with a default event of a clearing member, aimed at ensuring its stability and its ability to quickly resume its operations and provide its services to the market (see Principle 13).

The framework for managing the default of a clearing member and the framework for ensuring the continuity of its business activity are the two main principles for ensuring the Clearing House's ability to provide its critical operations and services upon the occurrence of the aforesaid scenarios and thereafter.



Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

MAOF-CH maintains a comprehensive framework for managing its credit risk, including procedures and processes for identifying, mapping, monitoring, measuring and reviewing the risk foci arising from its overall activities and the services that it provides, including those arising from its obligation as a CCP.

MAOF-CH maintains financial resources to enable it to have sufficient coverage with a high degree of certainty for the losses that it may incur on the occurrence of a default event of a clearing member and to ensure its stability and the confidence of the market that it serves. In addition, MAOF-CH allocates a minimum amount of its equity to absorb credit losses from other activities (such as investments in securities) to ensure its stability.

The amount of the financial resources required by the Clearing House to deal with a default event is set according to the largest aggregate credit exposure that may arise to the Clearing House as a result of a default event of a clearing member in extreme but plausible market conditions, and according to the margin requirement methodology, which is employed to assess the credit exposure to every clearing member in accordance with the level of risk arising from its activities at the Clearing House.

The policy, procedures and models used for the management of credit risk at the Clearing House are subject to periodic reviews and assessment processes, for which the models are validated based on the



plan approved by the risk management committee. The activities of MAOF-CH are carried out solely under the jurisdiction of the State of Israel and the products cleared thereby do not have a complex risk profile.

Key consideration # 1:

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

The risk management framework of MAOF-CH is governed by a policy document that was approved by the Clearing House's board of directors and includes a definition of the risk profile and identification of the risk foci, specification of the areas of responsibility of the lines of defense and the organs at the Clearing House in the management of the risk, and the principles according to which the Clearing House will identify, measure, monitor and manage its credit exposures.

MAOF-CH employs various measures to manage and minimize the credit exposures, including (but not limited to):

- holding of prefunded financial resources - collateral deposited by each clearing member against its margin requirement and against its share in the default fund and the Clearing House's independent resources;
- establishing and enforcing conditions for membership of the Clearing House (see Principle 18);
- deposit of cash that has been deposited as collateral by the clearing members with the Bank of Israel (see Principle 16);
- setting restrictions on the investment portfolio of the Clearing House that limit the exposure to credit risk (see Principle 16);
- legal protections implemented in favor of the Clearing House in the Securities Law (see Principle 1);
- establishing arrangements and procedures for the management of a default event of a clearing member and performance of immediate actions (see Principle 13);
- procedures, processes and controls to monitor, identify, measure and manage the Clearing House's exposures on a current basis.

The policy, procedures and models employed to manage the credit risk at the Clearing House are subject to periodic reviews and assessment processes, for which the models are validated based on the plan approved by the risk management committee.

Key consideration # 2:

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

The credit risk foci of MAOF-CH exist in all of its engagements with other entities that have an obligation toward the Clearing House, including: clearing members, custodian banks, financial market infrastructures and other debtors. The identification and characterization of the credit risk foci are done using procedures and internal risk management processes, in accordance with the applicable established policy.

In addition, for every project carried out by the Clearing House concerning the development of new activities and products, a comprehensive analysis is performed to identify, characterize, assess and rate all the risks arising from that activity or product, including credit risks, and to determine methods for their management, to the extent necessary

MAOF-CH's material credit exposures arise from the Clearing House's undertakings as a CCP, such that, in the event of the default of a clearing member, the Clearing House will be required to fulfill the obligations of the defaulting clearing member with respect to the other clearing members regarding transactions in derivatives and to handle the exposure that is created for the Clearing House from the member's open positions. In doing so, MAOF-CH may absorb losses from actions that will be taken by it to fulfill its obligations (such as during the process of realizing the collateral).

The main measures employed by the Clearing House to manage and minimize the aforesaid material exposures are prefunded financial resources held by it, and include collateral deposited by each clearing member against its margin requirement, against its share in the default fund, as well as the Clearing House's independent resources allocated for this from its equity ("skin in the game").

On a daily basis, the Clearing House monitors the potential credit exposure that may arise to the Clearing House as a result of a default event of the clearing member with the largest aggregate credit

exposure and in extreme but plausible market conditions. Based on the daily monitoring results, MAOF-CH will consider whether it is necessary to update the size of the default fund and require additional collateral. The Clearing House also performs real-time monitoring of its credit exposure toward each clearing member with respect to its open positions at the Clearing House and in comparison to the collateral deposited by it (see also Principle 6).

In order to calculate the value for collateral purposes of the securities used as collateral, the Clearing House employs “haircuts”. For this purpose, the value for collateral purposes of a security is calculated as the market value of the security multiplied by the percentage that results from deducting the percentage of the haircut from 100% (see Principle 5). A daily reconciliation is performed of the value of the securities that are used as collateral in relation to changes in the market value of the securities and/or changes in the haircuts.

Credit exposures that arise from the Clearing House’s relations with other financial infrastructures are those that arise from its relations with the Bank of Israel as a payments system (RTGS system) and with TASE-CH as a central securities depository (see Principle 20).

MAOF-CH’s credit exposures that arise from custodian banks relate to the Bank of Israel and to banks in which MAOF-CH accounts and securities investment portfolio are managed (see also Principle 16).

MAOF-CH allocates a minimum level of equity for the absorption of losses from the realization of credit risks, as required in the provisions of ISA’s Clearing Houses’ Stability Directive.

Key consideration # 3:

Not relevant.

Key consideration # 4:

A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially

cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.

MAOF-CH holds prefunded financial resources as its main means of managing and minimizing its exposure to the credit risk. These resources include the collateral deposited by the clearing member against its margin requirement, the collateral deposited by the clearing members in the default fund (according to each clearing member's share) and the Clearing House's independent resources allocated for this purpose from its equity (hereinafter – "the financial resources").

The margin requirement consists of two components as set forth below:

- A margin requirement that is determined using a dedicated model for calculating the Clearing House's credit exposure arising from a clearing member's open positions in derivatives under various predetermined scenarios. The parameters on which the calculation is based are determined in accordance with the unique risks and characteristics of the options and futures cleared at the Clearing House and the underlying assets on which they are based ("the scenarios model").
- A margin requirement that is determined as the amount of the net monetary debit that the clearing member is expected to pay on the following settlement day with respect to the premium on options and with respect to monetary settlement on realization of derivatives.

MAOF-CH has a stable and documented framework for managing the members' margin requirement, which is composed of procedures, models, processes and controls. The margin requirement is calculated and monitored in real time by an automated system, which compares the clearing member's margin requirement against the collateral value of the assets deposited by the member as margin and which sends a real-time alert if there is a collateral shortfall. The Clearing House has daily and intra-day margin call arrangements that are anchored in the By-laws and internal procedures (see Principle 6).



The default fund of MAOF-CH is updated at least once a quarter⁹ and is set at the higher of the amounts set forth below:

- An amount equal to the results calculated by the model described in key consideration # 5.
- A third of the average margin amount required from all MAOF-CH clearing members, at the start of the trading day, during the quarter that preceded the date of updating the amount of the default fund.
- ILS 250 million.

On a daily basis, MAOF-CH monitors the level of the financial resources that would be required by it in the event of a default event of a clearing member, using a model that estimates to a high degree of certainty the highest cumulative credit exposure that would be caused to the Clearing House in the event of a default event of a clearing member in extreme but plausible market conditions. To a certain degree, the model also expresses the member's connection with the other clearing members (see breakdown in key consideration # 5).

MAOF-CH has established procedures for the ongoing management of the financial resources, including monitoring and amount updates, which are subject to the principles set out in the credit risk policy and the risk management policy of the Clearing House. The principles for determining the amount of the financial resources are provided for in the By-laws of MAOF-CH. All of the aforementioned policy documents, procedures, models and processes are documented and maintained in accordance with the applicable procedures of MAOF-CH.

⁹ The regular calculation dates of the default fund at the Clearing House are on the first day of every calendar quarter, namely January 1, April 1, July 1 and October 1, and the actual update takes place on the 15th of each month in which the fund is calculated.

Key consideration # 5:

A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.

As mentioned above, MAOF-CH monitors and estimates on a daily basis the amount of financial resources that for handling a default event of a clearing member with the largest aggregate credit exposure in extreme but plausible market conditions. This amount is determined in accordance with the highest difference between a member's maximum margin requirement on a given trading day and the member's minimum margin requirement on such day, over a look-back period of 5.35 years. Hence, the aforesaid difference will be calculated for every trading day over the period of 5.35 years preceding the date of the calculation.

The maximum margin requirement will be calculated as the maximum margin amount that a clearing member or the related members, as appropriate, would have been required to deposit in each of the days of the look-back period, assuming the following calculation of the margin requirement:

- A maximum price volatility range parameter of the underlying asset will be calculated on a historical VaR basis over a time period of 16.05 years (where possible) and at a confidence level of 99.9% and the result will be multiplied by 1.3.

- An annual base asset volatility (standard deviation) parameter will be examined under the following two scenarios:
 - * The highest annual volatility, as set out in Part Eight of the By-laws, recorded in a period of 16.05 years, multiplied by 1.3.
 - * The lowest annual volatility recorded in a period of 16.05 years, multiplied by 0.7.
- The annual volatility parameter will be calculated as prescribed in the By-laws, on the basis of the annual volatility calculated as stated.

In order to check whether it needs to supplement its financial resources, due to the results from the above model, the Clearing House performs the calculation presented below:

From the financial resources estimate it calculated, the Clearing House deducts the following amounts ("the calculation result"):

- The lower of the margin amount that a member would have been required to deposit in accordance with the provisions of Part Eight of the By-laws of the Clearing House and the amount that would have resulted from a calculation based on the maximum volatility range parameter as of the date of the calculation.
- the Clearing House's independent resources.

The above calculation result reflects the size of the default fund that the Clearing House requires to cover the credit exposure it would have as a result of the default of a clearing member having the largest aggregate credit exposure in extreme market conditions, which is not covered by means of the clearing member's collateral and the Clearing House's independent resources allocated for this purpose from its equity. Using the calculation result, the Clearing House reviews the amount of the default fund on each of the four predetermined updating dates (see key consideration # 4).

MAOF-CH monitors the result of the aforesaid calculation on a daily basis, in relation to the current size of the default fund, such that if the calculation result exceeds the current amount of the default fund by more than a minimum threshold that is set for this purpose, the Clearing House will update the default fund at times other than the predetermined updating dates and will require the clearing

members to supplement their margin accordingly. The Head of the Clearing House may also order an update of the default fund if the calculation result does not exceed the current amount of the default fund, provided that the calculation result was not less than the amount of the default fund.

MAOF-CH monitors certain indicators on a daily basis so as to assess the need to calculate and update the haircuts for the calculation of the value for collateral purposes of the securities used as collateral (see Principle 5).

Key consideration # 6:

In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

As mentioned above, MAOF-CH takes into consideration potential price fluctuations in extreme but plausible market conditions in estimating its credit exposure from a clearing member's default event and the financial resources required to counter the exposure. Additionally, MAOF-CH has a repo agreement with the Bank of Israel to facilitate the swift liquidation of securities deposited as collateral in the Clearing House's default fund. This enables a prompt closing of the exposure, minimizes the impact of price fluctuations during the liquidation period and allows the Clearing House to take action to close the exposure even in conditions of insufficient liquidity in the market.

Key consideration # 7:

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

MAOF-CH has established arrangements for managing a default event of a clearing member, including rules and procedures for handling the different stages of the default event and dealing with credit losses that may be caused to the Clearing House as well as other costs.

In its procedures, MAOF-CH has established arrangements to supplement the financial resources after they have been used to handle the default event, or even if additional resources are required by it to handle the default event, after it has exhausted all the prefunded resources available to it. The supplementation of the financial resources will be done by the clearing members and the Clearing House on the basis of the existing model for determining the amount of the financial resources, while the Clearing House will act to minimize the harm to the other, no defaulting, clearing members. As a rule, MAOF-CH will not continue to provide its services if it does not have sufficient financial resources at its disposal, unless determined otherwise by the Clearing House's board of directors and in accordance with its By-laws.

In addition, the procedures of MAOF-CH contain arrangements for the execution and financing of the repurchase from the Bank of Israel of securities deposited in the default fund by the clearing member in default and by the other clearing members, which the Clearing House has liquidated in order to handle the default event, in accordance with the agreement signed between MAOF-CH and the Bank of Israel (see also Principle 7).

For further information regarding the Clearing House's default arrangements and procedures, see Principle 13.



Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

MAOF-CH restricts the types of assets that it accepts as collateral to assets that are deemed to involve relatively low credit, liquidity and market risks. Additionally, the haircuts model that is used in calculating the value for collateral purposes of the securities that qualify as collateral serves to further reduce potential exposures.

In order to minimize additional risks inherent in the types of collateral that may be realized in a default event of a clearing member, MAOF-CH has the right to carry out the swift liquidation of securities deposited as collateral by each of the clearing members in the default fund in proportion to their share, by way of a repo agreement signed with the Bank of Israel.

Key consideration # 1:

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

MAOF-CH's policy regarding the types of assets that are suitable for use as collateral (hereinafter "qualifying collateral"), and the method for calculating their value are governed by the Clearing House's By-laws. The assets used as qualifying collateral are:

- Cash deposited in ILS in the Clearing House's collateral account at the Bank of Israel.
- Israeli government bonds and treasury bills deposited at the Clearing House, in an account in the name of MAOF-CH and in its favor, with each member having its own account. With respect to the financial market in Israel, these assets are deemed to involve relatively low credit, liquidity and market risks.

Clearing members are not allowed to deposit securities that they had issued as collateral. Additionally, MAOF-CH does not accept as collateral, on an "exception" basis, any financial assets not specified above. The Clearing House's systems automatically block the deposit of collateral that is not of the types stated above.

Key consideration # 2:

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

MAOF-CH has established haircuts for calculating the value for collateral purposes of Israeli government bonds and treasury bills (hereinafter in Principle 5 – “bonds”). These are used to calculate the value for collateral purposes of the securities (i.e. for adjusting/standardizing the market cap of the bonds to their value for purposes of compliance with the collateral requirement).

The haircuts are determined using MAOF-CH's internal model, which is based on VaR calculations with a minimum confidence level of 99.9%, subject to an assumption of a liquidation period of three trading days. The model includes, inter alia, historical simulation calculations over a look-back period (LBP) of 15 years, for the purpose of minimizing potential exposure to procyclical effects and other protection mechanisms, such as an add-on, which are intended to minimize potential incremental exposure to other relevant risks (e.g. liquidity risk), and floor components (that are also conducive to minimizing the potential exposure to procyclical effects).

The haircuts are updated regularly, at least every month, and may be updated more frequently in the event of the introduction of a new government bond into trading and/or the realization of an extraordinary event (trigger) in the financial markets – based on the daily monitoring of such triggers, all in accordance with the methodology and internal procedures of MAOF-CH.

In addition, every day, MAOF-CH reviews the value for collateral purposes of the assets deposited with it as collateral by each clearing member in comparison with its margin requirement and the collateral requirement from that clearing member according to its share of the default fund. In the event that the value for collateral purposes of the assets deposited by a clearing member as collateral is lower than the level required with respect to the margin requirement and to its share of the default fund, it will need to supplement the collateral on the date prescribed by MAOF-CH and prior to the first multilateral settlement window. MAOF-CH may impose additional charges on a member that fails to supplement the collateral requirement on the date prescribed by it.

Key consideration # 3:

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

As stated in Key Consideration #2 above, the haircuts model includes, inter alia, historical simulation VaR calculations over a look-back period (LBP) of 15 years, as well as the use of floor components that are also conducive to protection from potential exposure to procyclical effects.

Key consideration # 4:

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

MAOF-CH has the ability to carry out a swift liquidation of securities deposited as collateral by the defaulting member and those deposited as collateral by clearing members for their share of the default fund, by way of a repo agreement signed with the Bank of Israel for that collateral. This agreement enables MAOF-CH to minimize its exposure to potential liquidity and concentration risks that may be realized upon the sale of the securities that are used as collateral for the purpose of handling a default event of a clearing member, thereby managing and minimizing negative effects on the price of those securities that may be caused as a result of the need of MAOF-CH to perform a swift liquidation as stated.

In addition to the stated above, as described in Key Consideration #1, the types of securities that qualify as collateral are Israeli government bonds and treasury bills that are deemed to involve relatively low credit, liquidity and market risks, and the By-laws of MAOF-CH require a clearing member to deposit at least 25% of its share in the default fund in cash.

MAOF-CH follows the policy for the management of concentration risk that was established in conformity with the Clearing Houses' Stability Directive and the Group's risk management policy. The policy for the management of concentration risk will be approved by the board of directors at least once a year.

It is emphasized that as part of the management of the default of a clearing member, MAOF-CH can avail itself of a number of alternatives to liquidating the collateral, which it can employ at its discretion, taking into account any additional effect on the market, on the other clearing members and on the activities of MAOF-CH itself.

Key consideration # 5:

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

MAOF-CH does not accept collateral of this kind.

Key consideration # 6:

An FMI should use a collateral management system that is well-designed and operationally flexible.

MAOF-CH automatically monitors and calculates the value for collateral purposes of the collateral through the central clearing system, which is designed and maintained by it on a regular basis. The system was designed so that it gives a functional response to all the Clearing House's needs with respect to the fast withdrawal, deposit and transfer of collateral and with respect to changes in the parameters for calculating the value for collateral purposes of the collateral when necessary.

MAOF-CH's central clearing system has proven to be reliable and robust during the entire period that it has been in operation, including a period of stressed market conditions.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

MAOF-CH maintains a robust framework for managing the clearing members' margin requirement with respect to their activities in derivatives traded on TASE. The collateral deposited by a clearing member against its margin requirement represents the first layer of defense that the Clearing House would have in the event of that member not being able to meet its obligations, for the purpose of maintaining the stability and security of the Clearing House.

The calculation of the margin requirement for each clearing member is based on the Clearing House's margin model, which is comprised of 44 theoretical scenarios representing various "market conditions" that may occur as a result of fluctuations in the prices of the base assets and/or in their standard deviations, and an additional scenario that is intended to represent the value of the relevant market positions.

Apart from models and procedures for calculating the margin requirement, the framework for managing the margin also includes procedures, processes and controls that are intended to ensure the collection/supplementation of collateral at the times prescribed in the Clearing House's By-laws or ad hoc, should this be necessary in the judgment of the Head of the Clearing House, as well as to ensure that the requirement determined actually aligns with the Clearing House's risk appetite and credit risk management policy.

Key consideration # 1:

A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.

The framework for managing the current margin at the Clearing House includes laws, procedures, processes and systems for purposes of the calculation of the margin requirement and for monitoring, control and collection purposes.



The collateral deposited by the clearing member against its margin requirement represents the first layer of defense that the Clearing House would have in the event of that member not being able to meet its obligations, that is – a default event, in accordance with the collateral realization order that is anchored in the Clearing House's By-laws. Once this layer has been utilized, the Clearing House will make use of the defaulting member's share in the default fund, its independent resources and the share of the other, non-defaulting members in the default fund, in that order, all in accordance with the provisions of the Clearing House's By-laws (see also Principle 13).

The margin requirement at the beginning of every trading day comprises the result of the scenarios model of MAOF-CH (hereinafter: "the margin model") with the addition of the net monetary debit at the beginning of the anticipated trading day of the settlement window with the Bank of Israel.

The scenarios model is comprised of 44 theoretical scenarios representing various "market conditions" that may occur as a result of fluctuations in the prices of the base assets and/or in their standard deviations, and an additional scenario that is intended to represent the value of the relevant market positions, with the margin result being determined as the result of the worst scenario.

As mentioned above, the framework for managing the current margin at the Clearing House includes daily and intra-day monitoring and control processes, intended to track the requirement's development in accordance with the positions held by the clearing member during the day. Moreover, the Clearing House's collateral system performs a real-time comparison between the amount of the requirement from each clearing member and the collateral value of the collateral deposited by it with the Clearing House.

In the event of a member having a collateral shortfall, MAOF-CH makes a margin call at the following times:

- Collateral shortfall identified before the opening of the trading day – the member will be required to supplement the collateral by the time that trading in derivatives opens, or by 9:30 am, as the earlier of the two.
- Relevant collateral shortfall during a trading day – the member will be required to supplement the collateral within an hour of the time of delivery of MAOF-CH's notification to the relevant member.

It is hereby stressed that relevant collateral shortfall for this purpose is defined as a situation where the margin requirement of a given member, less 30% of the member's share of the default fund, exceeds the value for collateral purposes of the total collateral deposited by the member in respect of the margin requirement.

- Collateral shortfall after the closing of the trading day – the member will be required to supplement the collateral within an hour of the end of trading in derivatives or within half an hour of delivery of MAOF-CH's notification to the relevant member, as the later of the two.

Notwithstanding the aforesaid, the Head of the Clearing House may require the member to deposit collateral in an amount that exceeds that referred to above or at an earlier time than that prescribed above, if – in his opinion – this is necessary to guarantee fulfillment of the member's obligations toward MAOF-CH.

The margin model is publicly disclosed in the Clearing House's By-laws and on TASE's website. The information published in the Clearing House's By-laws and on TASE's website enables clearing members and other market participants to make ongoing use of a model, inter alia, to make a precise assessment of the margin requirements and to provide forecasting ability with regard to the implications of a new transaction on the existing margin requirement.

The framework for managing margin at the Clearing House and the models used to calculate the margin requirement are subject to the model risk management policy of the TASE Group, as well as to the tests and checks that are carried out on an ongoing or an ad hoc basis.

Key consideration # 2:

A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.

Since MAOF-CH is a wholly-owned subsidiary of TASE, the prices of underlying assets that are traded on TASE received directly from TASE's infrastructure systems. For underlying assets that are not traded on TASE, the Clearing House makes use of reliable outside information sources, such as leading



information providers, or the averaging synthetic prices of an underlying asset that are embodied in the traded options, all in accordance with the provisions of MAOF-CH's By-laws.

In its By-laws and procedures, MAOF-CH specifies the information sources that it will make use of with regard to the additional parameters that serve it in calculating the margin requirement (such as standard deviation and interest). Such sources include TASE and leading outside information providers. These data are based mainly on accepted and quoted prices, with the Clearing House having backup with regard to the availability of data from external information providers.

The Clearing House also uses the aforementioned data sources to construct historical data for relevant models, and in the performance of periodic examinations/reviews as part of the overall framework for managing the current margin at the Clearing House. The reliability of the data used is examined from time to time, as necessary, in conformity with the model risk management policy of the TASE Group. In addition, the Clearing House has a broad policy regarding reporting, handling and investigating problems, to the extent that these arise.

Key consideration # 3:

A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the sub portfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.

As stated above, the margin model of MAOF-CH is comprised of 44 theoretical scenarios representing various “market conditions” that may occur as a result of fluctuations in the prices of the base assets and/or in their standard deviations, and an additional scenario that is intended to represent the value of the relevant market positions, with the margin result being determined as the result of the most stringent scenario.

The scan ranges of the prices of the underlying assets at MAOF-CH (hereinafter: “the scan ranges”) are calculated on the basis of the most stringent of the results of: (i) parametric VaR with a standard deviation that is estimated by the moving average (MA) method over a look-back period (LBP) of half a year; (ii) parametric VaR with a standard deviation that is estimated by the exponentially weighted moving average (EWMA) method over a look-back period (LBP) of one year; (iii) VaR historically simulated over an LBP of 5 years; and (iv) VaR historically simulated over an LBP of 10 years – for the purpose of minimizing the potential exposure to procyclical effects. The VaR calculations are performed at a confidence level of 99.5%, subject to an assumed close-out period of three trading days. The scan ranges model also comprises floor components for the scan ranges, which is also conducive to minimizing the potential exposure to procyclical effects.

The scan ranges are updated every month and may be updated more frequently in the event of the realization of an extraordinary event (trigger) in the markets – based on the daily monitoring of such triggers, all in accordance with the applicable methodology and operating procedures.

The margin model makes use of a uniform representative volatility (standard deviation) parameter, for all exercise prices and expiry ranges of the options on a given underlying asset. This parameter is calculated according to the average volatility inherent in the prices of the monthly options whose exercise date is the soonest. Nonetheless, if, on the date when the representative annual volatility parameter is updated, no trading takes place in some or all of the options that serve as the basis for calculating this parameter, or if the trading volumes in these are low, the trading manager may determine the annual volatility parameter in a range that is between the historical annual volatility for the 120-day yield on the underlying asset (“the historical volatility”), and the volatility inherent in the prices of the above options in which trading did in fact take place on the date of updating the parameter. In practice, in the current margin model, the representative volatility for all the options



whose underlying asset is not the TA-35 Index or the dollar exchange rate (in relation to the ILS) is the historical volatility.

It should be noted that if, in the opinion of the Head of the Clearing House, market conditions require the values of certain parameters to be changed (for further details, see paragraph 4 in Chapter Five of the MAOF-CH By-laws), he may – in consultation with TASE's CEO and the Chief Risk Officer – immediately set the new parameters.

Key consideration # 4:

A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

The margin requirement at MAOF-CH is intended to cover both the current exposure and also the potential exposure to a clearing member, inasmuch as there are 44 theoretical scenarios in the margin model, which are intended to represent various "market conditions" that may occur as a result of fluctuations in the prices of the underlying assets and/or in their volatility during the close-out period, as well as a scenario aimed at representing market value of relevant positions.

MAOF-CH performs intra-day updates of the margin requirement as well as ongoing monitoring and tracking of margin development throughout the trading day. In addition, the Clearing House carries out ongoing tracking and comparisons between the updated margin requirement and the collateral value of all the collateral deposited against this requirement, with the Clearing House being able to make a margin call during the course of trading and having the authority to do this if a member's margin requirement, less 30% of its share in the default fund, exceeds the value for collateral purposes of the total collateral deposited by the member with respect to the margin requirement. If this is the case, the member will be required to supplement collateral within an hour of the time of delivery of MAOF-CH's related notification. Furthermore, in accordance with the Clearing House's By-laws, the Head of the Clearing House may require the member to deposit collateral in an amount higher than that stated above or at a time earlier than that stated above if, in his opinion, this is necessary to guarantee the member's fulfillment of its obligations toward the Clearing House.

At the start of the trading day, the Clearing House sends each clearing member information regarding the level of the margin requirement calculated in accordance with the member's positions, as well as information regarding the updated value of the collateral according to the base prices determined at the opening of trading on TASE for each type of security.

Key consideration # 5:

In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorized to offer cross-margining, they must have appropriate safeguards and harmonised overall risk-management systems.

At the time of preparing the Disclosure Document, the margin model does not allow setoffs between the margin requirement in respect of derivatives whose underlying assets are inter-commodity spreads.

Key consideration # 6:

A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.

The Clearing House performs back-testing of the margin model, the results of which are monitored on a daily basis, and of the underlying assets' scan ranges model (on quarterly basis). Every quarter, a report on the back-testing results of the two models is submitted to the risk management committee.

In addition to the aforesaid, the Clearing House has prescribed additional defenses and controls in order to ensure high coverage of the possible exposure that it could be subject to at the time of a clearing member's default event, by means of securing additional financial resources within the framework of the default fund, with this intended to cover the residual exposure that is not covered in the margin model.

Key consideration # 7:

A CCP should regularly review and validate its margin system.

The margin model and the underlying assets' scan ranges model are subject to the model risk management policy of the TASE Group, and are therefore expected to be validated every three years. In addition, the Chief Risk Officer will examine the need to perform validation in the event of a material change in the market conditions and/or in light of any regulatory requirements that may arise.

It should be noted that models that are subject to the model risk management policy of the TASE Group may be validated less frequently at the discretion of the CEO of TASE and the Chief Risk Officer, after obtaining an appropriate approval from the risk management committee.

The framework for managing the margin is set forth in the Clearing House's By-laws, including the models used for its calculation. As a rule, recommendations to validate models are presented to the risk management committee and to the Clearing House's board of directors for approval and, should a change to the Clearing House's By-laws be required, the Clearing House will send the amendments to the clearing members to receive their comments prior to bringing the proposal regarding this for discussion and approval at the board of directors.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

The framework for managing liquidity risk at MAOF-CH includes the management of the Clearing House's liquidity needs in the event of the default of a clearing member by virtue of its obligation as a CCP, and the management of the liquidity needs for financing its current business activities. In order to manage its exposures to the various risk foci the Clearing House has established a policy, procedures, processes, controls and measures to minimize the risks.

MAOF-CH holds liquid resources and guaranteed liquidity lines as its main minimizing measure to cover its liquidity exposures and implements assessment, measurement, monitoring and control processes and periodic reviews to ensure that these resources are sufficient to cover the exposures with a high degree of confidence. The Clearing House is obligated to hold liquid assets in the minimum amount prescribed in the Clearing Houses' Stability Directive by the ISA. MAOF-CH does not rely on liquidity lines or liquidity providers that are not guaranteed in advance to a high degree of certainty.

Key consideration # 1:

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks¹⁰, nostro agents, custodian banks, liquidity providers, and other entities.

The framework for managing the Clearing House's liquidity risks is governed by a policy document that has been approved by the board of directors of MAOF-CH, and includes a definition of the risk profile

¹⁰ This definition does not include the clearing members settling for their customers, but only banks through which MAOF-CH performs settlement for its own account, or for the clearing members, as part of the settlement of transactions on the Clearing House – such as the Bank of Israel through which settlement is executed using the RTGS.

and identification of the risk foci, and determines the areas of responsibility of the lines of defense and the organs in MAOF-CH in the management of the risk, as well as the principles according to which the Clearing House will identify, measure, monitor and manage its liquidity exposures.

The Clearing House distinguishes between two main types of liquidity exposure, as set forth below:

1. **Exposure from the liquidity required to handle a default event** – Since MAOF-CH is required to act as a CCP at a default event of a clearing member, it will require liquid resources in order to deal with the defaulting member's open positions and in order to cover all of the member's financial debts, on the default date and thereafter, to MAOF-CH (in accordance with its future cash flows) In addition to the liquid resources that MAOF-CH would require to close the open positions, as above, it is also required to guarantee the access to such assets and the ability to realize them swiftly, all in accordance with the default waterfall order as set forth in the Clearing House's By-laws.
2. **Exposure from the liquidity required to finance ongoing business activities** – In order to ensure the stability and business continuity of the Clearing House, it is required to ensure that it is able to finance its ongoing obligations and expenses, including the financing of future investments. This type of liquidity risk may be realized as a result of a sharp drop in the Clearing House's revenues, a sharp increase in its expenses or the absorption of a material loss (see Principle 15), as well as due to the occurrence of a disaster or other events that endanger the Clearing House's business continuity (see Principle 15).

In order to handle each of the types of exposure, as above, the Clearing House holds sufficient and distinct liquid resources for each type of exposure. The total liquid resources required by the Clearing House to handle a default event will be equal to the amount of the exposure from the clearing member with the largest aggregate exposure in extreme but plausible market conditions (see Principle 4), and the amount of the liquid resources to finance the Clearing House's business activities will be, at minimum, the amount of the Clearing House's operating expenses for a six-month period of activity.

Since the cash that is provided as collateral by the clearing members is deposited in an account managed in the name of the Clearing House at the Bank of Israel, immediate access to these assets is guaranteed to a high degree of certainty. Furthermore, the securities that are provided by the clearing



members as collateral are deposited in separate accounts at the TASE Clearing House, which is also a CSD for the securities, such that the access to those securities is also guaranteed to a high degree of certainty (see also Principle 16).

To guarantee immediate access to its independent resources, MAOF-CH maintains its assets in several bank accounts, of which at least two will be maintained in banks from different banking groups. Additionally, according to the applicable policy of MAOF-CH, in at least two accounts that are maintained in banks from different banking groups, a minimum amount will be kept, as shall be determined by MAOF-CH, but not less than the amount of its contribution to the default waterfall.

Key consideration # 2:

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

MAOF-CH conducts real time monitoring of the monetary settlement expected on the trading day (T+1) and the margin requirement from each member is updated accordingly, so that, throughout the trading day the Clearing House can be sure of having sufficient collateral to be able to execute the monetary settlement.

The future cash flows of each clearing member are assured by the Clearing House, through the margin requirement to cover the potential exposure to each member with respect to the open positions that it holds, with this requirement being monitored in real time and being tested in comparison to the value of the collateral deposited by that member with the Clearing House. If the clearing member has a collateral shortfall compared to that required from him, the Clearing House will collect the collateral in accordance with the provisions of the By-laws (see Principle 6).

The Clearing House participates in the Bank of Israel's RTGS system and uses it to execute the monetary settlement in all the settlement and payment processes carried out by it (see Principle 9). The rules of the RTGS system stipulate a number of defined dates and periods of time for sending multilateral clearing orders to the RTGS system during a clearing day¹¹ ("settlement windows"). In addition, the Clearing House may send a unilateral clearing order to the RTGS system at any time of day. The Clearing House has the capability to track the execution of the money clearing orders on the RTGS system in real time.

The monetary settlement on the RTGS system is carried out simultaneously for every clearing order sent to the system, and the system does not allow the partial execution of an order. The meaning of a failure in the financial settlement on the RTGS system, which is not as a result of any operational failure,

¹¹ A clearing day is defined as a day on which the Clearing House executes clearing of any kind, and – with the exception of days that are specifically excluded – the clearing days are Sunday to Friday, inclusive.

is the occurrence of a default event of a clearing member, and in such an event the Clearing House will act in accordance with the arrangements and procedures that it has established for this occurrence (see Principle 13).

At the end of each trading day, MAOF-CH sends the clearing members notices and information regarding the expected monetary settlement amount for the following day, and these notices are also sent at the end of a multilateral clearing round.

The Clearing House, through TASE, carries out processes to identify, measure and monitor its cash flows arising from its ongoing operations (that are not clearing operations), when they occur, and those that are expected to occur at a future date, among others, by managing and updating the budget targets and monitoring the implementation of the work plans during the year (see Principle 15).

Key consideration # 3:

Key consideration 3 is not relevant to the Clearing House and is for infrastructures that are securities settlement systems.

Key consideration # 4:

A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

The calculation of the margin requirement is performed in real time for every clearing member as is the comparison between the amount of the requirement and the value of the collateral deposited



by it to cover the requirement. If the member has a collateral shortfall, the Clearing House will collect the shortfall at the times prescribed in the By-laws. The aforesaid margin requirement also includes the coverage of the monetary settlement with respect to the net debit that the clearing member is expected to have on T+1, whereby the Clearing House assures itself of having the immediate cash flows (see Principle 6).

As a CCP, the Clearing House guarantees the fulfillment of the obligations of the clearing members arising from transactions in derivatives executed by them on TASE, so that – on the occurrence of a default event of a clearing member – the clearing members that did not default will receive settlement of said member's obligations toward them. In order to fulfill its obligations, the Clearing House holds sufficient liquid resources in the amount it would require in order to cover its exposure to the default event of the clearing member having the highest aggregate exposure and under extreme market conditions with a high degree of confidence. In addition, the Clearing House calculates the costs expected for the purpose of executing a swift liquidation of the securities deposited as collateral that are included in this amount of the required resources, and collects this in advance within the framework of the requirement for the clearing members to participate in the default fund.

The repo agreement with the Bank of Israel guarantees, to a high degree of certainty, the ability of MAOF-CH to carry out a swift liquidation of the securities that serve as collateral, also upon the occurrence of an extreme event in the market, which is also conducive to minimizing the exposure to price fluctuations in the period from the occurrence of a default event to the realization of the collateral. In addition, as also described in the previous key considerations, the types of securities that qualify as collateral are Israeli government bonds and treasury bills that are deemed to involve relatively low credit, liquidity and market risks, compared to the other securities that are traded on TASE.

Since MAOF-CH operates in the financial market in Israel, most of its liquidity exposure is in ILS and its operations have no material effect on other jurisdictions. Furthermore, the risk profile inherent in its activities with the products that it settles is not complex. Therefore, the Clearing House does not hold additional financial resources, unless the head of the Clearing House decides to do so in a specific case.

When developing a new activity or product, or entering a new market, the Clearing House also assesses the effect on its risk profile, including under extreme events, and based on the results of the assessment decides whether it requires additional liquid resources.

Key consideration # 5:

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

MAOF-CH holds liquid resources and has guaranteed arrangements so that it will be able to fulfill its obligations in the event of the default of a clearing member, and with a high degree of confidence, even in extreme but plausible market conditions, as set forth below:

- **Collateral** – The collateral requirement policy of the Clearing House allows the clearing members to deposit only cash, Israeli government bonds and Israeli government treasury bills, assets with high liquidity and tradability relative to the financial market in Israel. A clearing member is required to deposit at least 25% of its share in the default fund in cash, to ensure minimum immediate liquidity.
- **Minimum liquidity buffer** – The Clearing House's assets are held for the most part in cash and in securities. The investment in securities is in accordance with the Clearing House's investments policy, which provides that an investment in securities will be limited to Israeli government bonds and treasury bills only, which are assets with negligible credit risks and high liquidity (relative to the financial market in Israel), and also sets additional restrictions in order to maintain a minimal exposure to market risks (see Principle 16). From this mix of liquid assets, the Clearing House allocates a minimum asset buffer at the level of its share in the order of priority of realizing assets

in the event of a member's default, and at the level of its operating expenses over a six-month period. This allocation of liquid assets is held in accordance with the minimum liquidity requirements prescribed in the Clearing Houses' Stability Directive.

- **Repo agreement with the Bank of Israel** – MAOF-CH has entered into a guaranteed repo agreement with the Bank of Israel that will allow it, where necessary, to swiftly liquidate securities deposited by the clearing members as collateral as part of the margin requirement and against their share in the default fund. By way of this agreement, the Clearing House minimizes its exposure to a drop in the prices of the assets that it would be required to liquidate in the event of a default, as it allows it to immediately realize the agreement for the full amount of the collateral, without the liquidation having a direct effect on the supply and demand prices in the trading on TASE.. In addition, because of the agreement, the Clearing House is able to reduce the time difference between the occurrence of the default event and the time when the Clearing House possesses the debit amount required to complete the monetary settlement window, as set forth under key consideration # 3, and the continuity of its activities and the provision of the Clearing House's services to the market are thereby ensured.

In the opinion of MAOF-CH, the liquid resources that it holds, as set forth above, largely satisfy its liquidity needs, to the extent that it will be able to handle the default event of a clearing member and ensure its business continuity in the event of a disaster or emergency.

Key consideration # 6:

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

MAOF-CH does not employ arrangements of the type described as part of the planning of the liquid resources that will be available to it on the default of a clearing member.

Key consideration # 7:

An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

MAOF-CH's main liquidity provider is the Bank of Israel, through the agreement signed with it as detailed under key consideration # 5 above. Since the Bank of Israel is the central bank that is responsible for issuing new shekels – the currency in which the qualifying collateral is denominated – MAOF-CH has a high degree of confidence in all matters relating to the ability of the Bank of Israel to fulfill its obligations under the agreement and to provide the required liquidity when needed. In addition, in the opinion of the Clearing House, the Bank of Israel has all the information that it requires, including the ability to obtain any other information that it may require, to manage the liquidity risks deriving from its obligations under the agreement.

Other than the Bank of Israel, MAOF-CH is not heavily reliant or dependent on any other liquidity provider, in view of the fact that the collateral deposited with it, as well as its independent means, are liquid assets that can be converted into cash swiftly, even using other arrangements.

Key consideration # 8:

An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

MAOF-CH includes in its liquidity risk management policy the different methods that the Clearing House has of accessing services from the central bank. The Clearing House does not have access to other central banks and it does not believe that there is a real need for this, in view of the fact that its liquidity exposure is in shekels.

Key consideration # 9:

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

The Clearing House performs daily controls to track and manage its financial resources, including: daily monitoring of the amount of liquid resources that it would need to handle a default event of a clearing member, calculated on the basis of extreme scenarios (see Principle 4); calculating and real-time

monitoring of the margin requirement and its comparison to the amount of collateral actually deposited (see Principle 6); and daily tracking of the value for collateral purposes of the liquid collateral deposited with it in accordance with the updated market value and after multiplying the securities by the appropriate haircuts (see Principle 5).

The Clearing House has defined reporting procedures to the relevant decision makers at the Clearing House with respect to each control carried out, as applicable. In addition, if extra collateral is required from the clearing members, whether to top-up the margin requirement or to top-up the collateral in the default fund, the Clearing House will notify the members, according to the reporting dates set forth in the By-laws and its internal procedures.

In the opinion of the Clearing House, liquidity risks imposed on it by other entities are not material, since the principal liquidity provider of MAOF-CH is the Bank of Israel, the Clearing House has full access to the assets deposited as collateral as the cash is deposited with the Bank of Israel and the securities are at the TASE-CH (a sister company of MAOF-CH) and it has no unguaranteed liquidity providers or other arrangements upon which it relies.

With respect to the financing of its ongoing activities, TASE conducts careful monitoring for the Clearing House of the management of the cash flows and the meeting of budgetary targets and the work plans that were approved by the board of directors. In addition to the above, the Clearing House calculates and updates the allocation of the liquid assets from its equity against its participation in the order of priority in realizing assets at the time of a default event and against ensuring the coverage of its operating expenses for six months. This requirement for liquid net assets was also set forth by the ISA in the Clearing Houses' Stability Directive.

Key consideration # 10:

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

MAOF-CH's legal basis grants it a high level of certainty in all matters relating to the exercise of the powers conferred on it by the By-laws, and the ability to execute its activities at any time, and in particular at a time of insolvency of a clearing member. In addition, as set forth in detail in Core Principle 1, the Securities Law provides strong protections for the Clearing House with respect to its ability to realize collateral charged to it over other creditors, and with respect to its ability to enforce the settlement finality over any other insolvency law.

The settlement finality arrangements set forth in the Clearing House's By-laws ensure that the activities of MAOF-CH cannot be subject to annulment, cancellation, return or postponement after the dates set forth in the By-laws, except in predetermined cases, and if executed prior to the determining date in the Securities Law in the event of the insolvency of a clearing member.

MAOF-CH has the ability to realize collateral charged in its favor by a clearing member without a court order, or an order from the chief judgment enforcement officer, subject to the terms set forth in the Securities Law.

The liquidation agreement with the Bank of Israel grants the Clearing House a high degree of certainty regarding its ability to obtain immediate liquidity against the collateral charged in its favor, as set forth above, since the agreement is with the central bank of the State of Israel and the risks arising from this agreement are negligible. Furthermore, since the cash that was deposited as collateral by the clearing member is deposited in an account managed in the Clearing House's name at the Bank of Israel, the



Clearing House also has a high degree of confidence with respect to its ability to access these assets and to use them when necessary.

As part of the arrangements and procedures set forth for managing a default event of a clearing member, MAOF-CH has stipulated the manner in which it will be able to demand the extra liquid resources during and at the end of a default event of a clearing member.



Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date.

Where necessary or preferable, an FMI should provide final settlement intraday or in real time.¹²

In its Rules, MAOF-CH regulates the settlement finality in accordance with the arrangement set forth in the Securities Law, which grants the Clearing House a high degree of certainty with respect to its ability to act to complete the settlement during the ordinary course of business, or at the time of the insolvency of a clearing member.

Key consideration # 1:

An FMI's rules and procedures should clearly define the point at which settlement is final.

The By-laws of MAOF-CH clearly and explicitly define the times at which the settlement will be considered final and irrevocable, and this includes the times at which it will not be possible to cancel or change the registration of a clearing order at the Clearing House, or to demand that the Clearing House not execute a clearing action that is connected, directly or indirectly, to the clearing order.

A clearing order is considered irrevocable from the time at which, according to MAOF-CH's records, the order was actually received by MAOF-CH, unless otherwise stated in the By-laws. For this purpose:

- for a transaction on TASE, the clearing order deriving therefrom will be treated as having been received at MAOF-CH at the time when, according to TASE's records, the transaction was executed on TASE.
- for a transfer to a custodian or a transfer of options and futures without monetary consideration, the clearing order deriving from the transaction will be treated as having been received at the Clearing House from the time that both parties' clearing orders were received at the Clearing House, provided that the two orders match each other.

¹² Value date – “The day on which the payment, transfer instruction or other obligation is due and the associated funds and securities are typically available to the receiving participant.” Principles for financial market infrastructures, CPSS-IOSCO, April 2012.

It shall not be possible to cancel the registration of the Clearing Order at the Clearing House, to change it or to require the Clearing House not to carry out a clearing operation that is directly or indirectly related to the instruction, except in accordance with the By-laws.

A clearing action will be considered final when the following conditions are met:

- For a clearing action that consists solely of the transfer of securities – the clearing action will be considered final at the time that the account of the member entitled to receive the security is actually credited with the security to his account.
- For a transfer of securities for consideration – a clearing action will be considered final at the time that the following conditions are met:
 - * the account of the transferor member is actually debited with the security and the account of the transferee member is actually credited with the security; and
 - * the credit of the monetary account of the transferor member or of the member that performs monetary clearing (MPMC) for the transferor member, with the consideration, has become final under the rules of the RTGS system.

If a clearing action has been executed – the Clearing House cannot be asked to cancel it, except as provided in the Clearing House's By-laws.

The Clearing House has a high degree of certainty regarding its ability to enforce the settlement finality arrangements that it has established, in view of the fact that these arrangements were established in accordance with the provisions of the Securities Law. The Law provides that the settlement finality will also apply with respect to third parties, including with respect to an officer appointed to a clearing member that is in insolvency proceedings, and it also grants the Clearing House priority over any other insolvency law to complete and execute clearing orders and actions on time and in full, provided that the conditions set forth for this in the Law are met.

Key consideration # 2:

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the clearing day.

The settlement dates are set forth in the Clearing House's By-laws. In general, MAOF-CH executes the monetary settlement of the premiums for the options bought on the trading day on T+1, and the monetary settlement for payments and accounting for options that have expired or futures that reached their maturity date is executed at the time set in accordance with the times prescribed according to product type.

The times at which the clearing orders and actions relating to the buying, writing or transfer of options and futures will be considered as final and irrevocable are defined in the By-laws, with final closing of the settlement with respect to the aforesaid being done by the end of the trading day, unless otherwise stated in the By-laws.

The monetary settlement is executed through the Bank of Israel's RTGS system, and the settlement finality in this settlement system is in accordance with the rules set forth by the Bank of Israel. The failure to execute the monetary settlement on the RTGS system, arising from the fact that it was not possible to debit the account of a member due to a lack of a balance (that is not the result of any kind of operational failure), constitutes a strong indication that will lead to the Clearing House declaring a default event of a clearing member and acting to complete the money settlement in accordance with the default arrangements set forth in the By-laws (see Principle 13).

For the avoidance of doubt, according to the legal basis of the Clearing House, a clearing member will not have the right to a security that it has purchased as long as it has not transferred the full consideration for that purchase transaction; and the clearing member will not have the right to receive the consideration with respect to a security that it has sold as long as it has not transferred all the inventory in the security with respect to the sale transaction (see also Principle 1).

Key consideration # 3:

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

The By-laws of the Clearing House clearly and explicitly define the specific times after which it is not possible to cancel the registration of a clearing order with the Clearing House, or to change it or to ask the Clearing House not to execute a clearing action related to the clearing order. In addition, the By-laws stipulate, with respect to every clearing action, the point at which the action becomes final.

MAOF-CH has a high degree of certainty regarding its ability to complete the clearing orders and actions if these are executed after the times set in the By-laws. This is based on the provisions of the Securities Law regarding this matter, and particularly in the case of a clearing member's insolvency when MAOF-CH is granted preference in doing so over the rights granted to others under any other insolvency laws.

The MAOF-CH By-laws that regulate the settlement finality, as stated under this principle, are publicly disclosed on TASE's website.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

The majority of the clearing orders received by the Clearing House, in terms of both quantity and value, are denominated in new shekels, and the monetary settlement is executed using the Bank of Israel's RTGS system.

Key consideration # 1:

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

MAOF-CH executes the monetary settlement in new shekels using the Bank of Israel's settlement system for the execution of bank transfers – the RTGS system (Real Time Gross Settlement System), which is an advanced system for the final and real time transfer of shekel-denominated payments.

MAOF-CH participates in the RTGS system as a payments system, which transfers payment instructions for crediting and debiting clearing members that are banking corporations and that have a direct account at the Bank of Israel, while clearing members that are not banking corporations ("NBM" or "NBMs" or "custodial member") are required to act through an accompanying bank for settlement that is also a clearing member.

The monetary settlement in the RTGS system is executed simultaneously through multilateral payment instructions in multilateral settlement windows and with bilateral clearing orders, such that the system credits or charges, as applicable, the monetary balances in the monetary accounts of the banks that are managed in the Bank of Israel's books, while a debit or credit of the monetary balances of an NBM or of a custodial member is executed by the accompanying bank for settlement in the account managed with it in the name of the NBM or of the custodial member.

The settlement of a multilateral payment instruction and the settlement of a bilateral payment instruction are final and cannot be cancelled once completed in accordance with the rules of the RTGS system as published by the Bank of Israel, and in accordance with the MAOF-CH By-laws.

In the opinion of MAOF-CH, the money settlement processes and the transfers of payments, as described above, do not create a material exposure to credit risks and liquidity risks for the Clearing House.

Key consideration # 2:

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

MAOF-CH executes monetary settlement through the central bank, as described extensively in key consideration # 1 above.

Key consideration # 3:

If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

MAOF-CH executes monetary settlement through the central bank, as described extensively in key consideration # 1 above.

Key consideration # 4:

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.

MAOF-CH executes monetary settlement through the central bank, as described extensively in key consideration # 1 above.

Key consideration # 5:

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

MAOF-CH is obligated to operate in the RTGS system in accordance with the system rules set forth and published for its participants by the Bank of Israel, which also include reference to settlement finality for actions that have been fully completed, such that the Clearing House has a high degree of confidence regarding this. The times defined for the execution of the monetary settlement of clearing orders that are sent to the RTGS system by the Clearing House are set forth in the RTGS system rules and are known to all of its participants. The settlement times and the settlement finality arrangements with respect to monetary settlement are also regulated by the By-laws of MAOF-CH.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

In its By-laws, MAOF-CH has established clear arrangements that govern its right to take immediate action to manage a default event of a clearing member, or if there is a suspicion that one may occur, all to ensure its stability and its ability to continue to provide its services and to fulfill its obligations toward the other clearing members. MAOF-CH also employs internal procedures that supplement the treatment of additional aspects, including operational aspects, and together with the By-laws they constitute the complete framework for the management of a default event at the Clearing House.

Key consideration # 1:

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

The framework for the management of a default event at MAOF-CH and its modus operandi are set forth in the Clearing House's By-laws ("default arrangements") and in its internal procedures ("default procedures"). The purpose of these arrangements and procedures is to stipulate how the Clearing House will act if a clearing member is not able to fulfill its commitments, monetary obligations or debts arising from clearing orders and actions executed at the Clearing House – whether at the time of execution of the obligation or at any other future time ("default event"). The default arrangements also define how the Clearing House will act if it believes that there is a suspicion that a clearing member may not fulfill its commitments, monetary obligations or debts, as stated, at the time that it will be required to do so ("suspicion of a default event"), and in instances where such a suspicion exists.

The default arrangements define the material aspects and immediate actions that the Clearing House will take in the event of a default event or a suspicion of a default event, including the hierarchy of powers for making a decision about the performance of these actions (including the delegation of these

actions), and the lines of reporting to the relevant parties, in accordance with the Clearing House's By-laws, as set forth below:

Arrangements for the interruption of the provision of the Clearing House's services to the member –

These arrangements are intended to reduce the Clearing House's potential exposure in the event of a default event, by temporarily or permanently interrupting the provision of the Clearing House's services to the member, and by defining the conditions for their renewal. The clearing member will have the opportunity to present its arguments to the Clearing House prior to a decision being made regarding the interruption to the provision of the Clearing House's services, unless the Clearing House believes that such a decision cannot withstand a delay, and provided that the member will have the opportunity to present its arguments to the Clearing House after the decision has been made.

Arrangements for early termination – The Clearing House may decide on the early termination of all the transactions to which the clearing member is a party at the Clearing House by means of making changes to the open positions of the clearing member or closing them – including, but without derogating from the generality of the aforesaid, by way of executing reverse transactions ("early termination"). A notice of a call for immediate repayment will be sent to the clearing member in advance, unless in the opinion of the Clearing House it is not possible to delay the process and it must be done immediately. In such a case, a notice will be sent to the member retroactively.

Arrangements for the realization of collateral – The By-laws set forth an order of priority for the realization of assets (collateral and its own resources) in the event of the default of a member – "the default waterfall". The order of priority set by the Clearing House is in accordance with the order of priority stipulated in the Clearing Houses' Stability Directive. The stipulated order of priority is: (1) realization of the collateral of the defaulting clearing member that was given in favor of the Clearing House against the margin requirement (2) the defaulting clearing member's share of the Clearing House's default fund; (3) the Clearing House's independent resources; (4) realization of the share of the other clearing members in the default fund.

The Clearing House's independent resources are at a rate of 25% of the total of all the capital requirements set for it in the Authority's directives for credit risk, market risks, business risk and operational risks, or NIS 7.5 million, whichever is higher.

Arrangements for fair value calculations and netting – In its By-laws, MAOF-CH has set forth arrangements for the method that will be used for calculating the value of the obligations and debts of the defaulting clearing member. The Clearing House has a wide-ranging right of offset and lien, which grants it the ability to offset every debt of a member toward it, of any type or kind, against any debt of MAOF-CH toward the member, of any type or kind, subject to the provisions of the Clearing House's By-laws in this matter. In addition, MAOF-CH has the right to charge any asset or right due to the member from it, including any asset given to MAOF-CH as collateral, as well as to realize – by itself or in any other way it will decide – the assets charged to it, to sell them and to use the proceeds to repay any debt of the member to it, all subject to the provisions of the Clearing House's By-laws.

Arrangements and additional actions that the Clearing House will take at the time of a default event, or the suspicion of a default event, are defined in the Clearing House's internal default procedures, which include, inter alia, monitoring and control processes to identify an increase in the risk for the occurrence of a default event, methods for realizing and liquidating collateral, replenishing the collateral in the default fund and allocating it among the nondefaulting clearing members, handling exposures created for the Clearing House due to the default event, additional reporting to the clearing members and other stakeholders, and more.

Key consideration # 2:

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

MAOF-CH has operational procedures for the organization of the processes and actions that it believes it will be required to carry out in order to implement the default arrangements and procedures that it has established. These procedures include, inter alia, details of the actions and processes that will be performed in order to handle all stages of the default event; the organization of the lines of responsibility and reporting between the relevant organs at the Clearing House and TASE, as applicable; the identification and handling of points of interface and possible barriers, including those that are liable to be created between the Clearing House and TASE and external parties (such as the Bank of

Israel and the ISA); and minimizing the harm to the other clearing members, in particular those that have a dependency relationship with the defaulting clearing member, and others.

The default arrangements of MAOF-CH stipulate the hierarchy of authority for making decisions and for executing its actions to handle a default event of a clearing member, and this includes (but is not limited to): early termination of transactions, including closing positions (see key consideration # 1), temporary or permanent interruption of the provision of settlement services to the defaulting member, realization of collateral and completion of the clearing member's obligations, sending of reports to clearing members and other parties (such as the Bank of Israel), convening a committee and/or a team of experts to deal with the default event and issuing a demand to supplement additional financial resources from the nondefaulting clearing members.

Key consideration # 3:

An FMI should publicly disclose key aspects of its default rules and procedures.

The material default arrangements of MAOF-CH are prescribed in the Clearing House's By-laws, as set forth in key consideration # 1, and these are publicly disclosed on TASE's website.

Key consideration # 4:

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

MAOF-CH performs a periodic analysis of the clearing member default management framework, including a review of its operating procedures. Any proposal for a change in the default arrangements that are set forth in the Clearing House's By-laws is brought to the attention of all the clearing members prior to the meeting of the board of directors, in accordance with the corporate governance arrangements of the Clearing House (see Principle 2).

The Clearing House maintains regular communication with the clearing members and the ISA, and when necessary also with the Bank of Israel, to the extent that it sees fit, in accordance with the various aspects and the nature of its default procedures.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

MAOF-CH does not offer segregation and/or portability arrangements for the positions of clearing members' clients, or for collateral related to them, other than segregation between the positions of the clearing member arising from its clients' activities and the positions of the clearing member arising from its own activities.

Key consideration # 1:

A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.

MAOF-CH does not offer segregation and/or portability arrangements for the positions of clearing members' clients, or for collateral related to them, in view of the absence of a supporting legal framework, other than an operational segregation between the positions managed at the Clearing House arising from the activities of the clearing members' clients, the positions managed at the Clearing House arising from the activities of the clearing member itself, and the positions that are managed by a TASE member that is not the member of MAOF-CH for which the settlement is performed, if any. This notwithstanding, MAOF-CH will do its utmost at the time of a default event to minimize the harm caused to clearing members' clients, inasmuch as such actions will be possible under the market conditions prevailing at the time of the default event and to the extent that such actions will not harm the security and stability of MAOF-CH.

Arrangements for portability of positions

The existing legal and regulatory framework of the financial market in Israel, and in particular the banking system, does not support the enforcement of guaranteed portability arrangements. Nevertheless, MAOF-CH intends to pursue the transfer of positions in the event of a clearing member's



default, to the extent possible, and has stipulated so in its internal procedures. It is hereby clarified and stressed that MAOF-CH will pursue the transfer of positions, as above, upon the occurrence of a default event, at its sole discretion and without any obligation on its part, this in order to minimize the harm to clients of the defaulting clearing member, by allowing the voluntary transfer of the positions to another clearing member, inasmuch as such transfer is not prohibited by restrictions that apply to the Clearing House at that time and to the extent that such actions will not harm the security and stability of MAOF-CH at such time.

Segregation arrangements for positions and collateral

The MAOF-CH By-laws prescribe that all the collateral deposited by the clearing member, whether within the framework of the margin requirement or whether within the framework of the requirement to participate in the default fund, will come from the independent means of the clearing member and will be free of any pledge, charge, attachment, lien or other right of any third party.

MAOF-CH performs operational segregation between the positions held by the clearing member with respect to its own activities and the positions held by it at the Clearing House with respect to its clients' activities, and even calculates and determines the margin requirement in accordance with this segregation. However, on the occurrence of a clearing member's default event, the Clearing House has the right of attachment and setoff (see further details in Principle 13) and it can exercise said right notwithstanding the aforesaid segregation.

Key consideration # 2:

A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.

MAOF-CH is able to identify positions at the level of a clearing member's client accounts and in accordance with the information received from it, but MAOF-CH is unable to identify or attribute specific client accounts, other than nostro accounts of a member of MAOF-CH or of a TASE member that is not a member of MAOF-CH. This identification takes place as part of the Clearing House's model for calculating the margin requirement, as detailed under Principle 6.

However, despite the Clearing House being able to do this, it does not attribute the collateral deposited for specific accounts, since the collateral is deposited by the member from the clearing member's independent means for the overall margin requirement, as set forth under key consideration # 1.

Key consideration # 3:

A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

MAOF-CH does not offer segregation or portability arrangements for the positions or collateral of clients, as described under key consideration # 1.

Key consideration # 4:

A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.

The MAOF-CH By-laws provide sufficiently clear and unambiguous information regarding the Clearing House's existing arrangements, including as regarding the segregation of client and nostro accounts, with these being publicly disclosed on TASE's website.

MAOF-CH does not offer portability arrangements, as described under key consideration # 1.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

MAOF-CH's framework for the management of business risks is identical to and an integral part of the business risk management framework of the TASE Group. In implementing the framework, a broad view is taken of all the business conditions that affect the Group, and of the business conditions that affect the Clearing House's own activities. MAOF-CH holds liquid net assets, which it believes to be at a level sufficient to support and ensure the continuity of business operations and to ensure the recovery or the orderly wind-down of the critical operations and services.

To remove any doubt, any reference in this Principle to the management of business risks in TASE Group should be deemed as reference to the management of business risks in MAOF-CH, unless otherwise clarified in the descriptions and the explanations that are provided below.

Key consideration # 1:

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

MAOF-CH identifies its business risks by examining the business conditions that could negatively affect its financial stability, either as a result of a sharp or a continuous decrease in its revenues, or as a result of an unexpected increase in its expenses, thereby causing the Clearing House to sustain a loss that would be charged against its equity – including a one-time nonrecurring loss.

The fact that MAOF-CH is a subsidiary of the Tel-Aviv Stock Exchange requires it to take a broad view of the whole array of existing and forecasted conditions in the Israeli financial market, as well as the global financial market – to the extent that the latter is relevant; accordingly, management of the business risk is done from the perspective of both the TASE Group and the Clearing House,

as the case may be, and the risk management framework has been set up in an identical fashion to the risk management framework of the Group.

The business risk management framework is anchored in policy documents and in internal procedures, which include processes for identifying the various risk foci, mechanisms for their control and monitoring, the allocation of resources to cover exposures, and, in particular, the use of prefunded financial resources for this purpose. The principal means and the processes that are used to identify and address the risk foci of the Group, include:

- a. Close and meticulous management of the income and expenses, which is based on detailed planning and current monitoring – As the majority of the income of TASE and the Clearing House derive from the volumes of trading on TASE, whether directly or from follow-on transactions, which are largely affected by events that are not in the control of TASE, such management is effected by monitoring indicators and/or metrics that may facilitate the identification and assessment of negative trends in light of the flexible structure of both the income and the expenses.
- b. Establishment of structured business processes, both annual and shorter-term, including the monitoring and control of their implementation, at the Group level, including: studying of and familiarization with the activity components that affect the income; formulation of an annual budget and work plans; development and analysis of databases; quarterly updating of the projections of income and expenses and a corresponding adjustment of the budget; preserving knowhow concerning the outcome of and conclusions from events; operations research and brainstorming in various forums.
- c. Since TASE is a public company whose shares are traded on TASE itself, it is required to publish quarterly financial reports and an annual report in accordance with generally accepted practices and accounting standards. Accordingly, all of the companies in the Group are required to maintain processes for the review and discussion of existing risk factors and of the need to identify new risk factors. Identified risk factors are described and published in the Group's annual financial report, while additions or updates to the risk factors, if any, are to be published in the quarterly financial reports of the Group.



The Clearing House's board of directors approves the annual budget and the work plans, after being informed of the consistency of the budget and the work plans with the risk appetite set by the board of directors.

As mentioned above, TASE stringently monitors the expenses of all Group companies on an ongoing basis and compares these to the annual budget, while examining whether it is necessary to update its revenues forecast based on the actual results, inter alia, by performing sensitivity analyses, so as to identify any increase in risks that could affect its financial stability.

As necessary, additional processes are implemented for identifying, monitoring and managing the business risks, including, inter alia, compliance with MAOF-CH's risk appetite, tracking the capital adequacy and liquidity, monitoring regulatory developments and statutory provisions having a direct or indirect effect on the business operations of MAOF-CH, and so forth.

The business risks management policy is approved by MAOF-CH's board of directors at least once a year.

Additional information on the risk factors, the nature of TASE's activities and the business environment in which it operates is provided in TASE's annual financial report, which is posted on the MAYA website (maya.tase.co.il) and on TASE's website (tase.co.il).

Key consideration # 2:

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

MAOF-CH holds a buffer of liquid net assets in order to ensure its business continuity, with said buffer being determined as an amount equal to that required to cover its operating expenses for at least six months of operations, assuming that the Clearing House will have no revenues whatsoever during that period. In accordance with the Clearing House's investment policy, the liquid assets are

restricted to cash and to Israeli government treasury bills and bonds, which the Clearing House believes are assets that have low credit, market and liquidity risks.

At least once a quarter, MAOF-CH calculates and updates the amount of liquid net assets that it is required to hold, as stated above. This is done as part of the overall calculation of the regulatory capital and liquidity requirements set for it in the Clearing Houses' Stability Directive of the Israel Securities Authority, and as part of the preparation of the quarterly or the annual financial report of the TASE Group. In addition, the value of the securities held in the investment portfolio of MAOF-CH is reviewed, at the level of each individual security, and also tracks the yield of the investment portfolio as a whole in order to identify and monitor whether it is holding sufficient liquid assets to cover said requirements.

MAOF-CH assesses that the amount of the liquid assets that it holds, as referred to above, together with the rest of the assets that it holds against the capital and other requirements, are sufficient to enable the recovery or orderly wind-down of its critical operations and services.

Key consideration # 3:

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

As stated under key consideration #2 above, MAOF-CH holds liquid net assets equal to the amount of its operating expenses for at least six months. These liquid assets are in addition to the liquid net assets that it is required to hold against its share of the prefunded financial resources held to cover a default event of a clearing member, as well as in addition to the rest of the assets from the equity allocated against the capital and other requirements pursuant to the Clearing Houses' Stability Directive.

Key consideration # 4:

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

As stated under key consideration #2 above, the liquid net assets are held in cash and in Israeli government treasury bills and bonds, which, according to the Clearing House, are considered to have low credit, market and liquidity risks in relation to the Israeli financial market. In addition, the Clearing House's investment policy sets out restrictions that are intended to reduce the exposure to market risks, including restrictions on the average duration of the portfolio and on the period to maturity of each security. Furthermore, since the Clearing House's investment portfolio is managed by external portfolio managers, and in order to reduce the related risks, the Clearing House's investment policy imposes restrictions the amount that may be managed by each manager and on the manner of management of the bank accounts in which the securities and the cash are deposited, for the purpose of minimizing custodial risks and concentration risks (see also Principle 16). Moreover, the amount of the liquid net assets is calculated after their multiplication by appropriate safety coefficients, which are identical to those that the Clearing House uses in calculating the value of the collateral deposited by the clearing members (see Principle 5).

MAOF-CH monitors the value of the liquid net assets and the compliance with the restrictions that it has imposed on the portfolio managers, at least once a month.

Key consideration # 5:

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

MAOF-CH has the option of approaching TASE in order to raise additional equity, at the discretion of TASE's board of directors.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

MAOF-CH safeguards the assets of the clearing members and its ability to promptly access these assets when necessary, and in particular when it needs to realize the collateral provided to it on the occurrence of a clearing member's default event. The Clearing House's investment policy regarding its assets is restricted to cash and to Israeli government treasury bills and bonds, with these assets having minimal credit, market and liquidity risks. MAOF-CH does not invest the clearing members' funds in accordance with its own risk management policy.

Key consideration # 1:

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

MAOF-CH deposits clearing members' funds that it has received as collateral in an account kept in its name at the Bank of Israel, and by so doing the Clearing House provides itself with a high degree of confidence in its ability to immediately access these assets at any time, with minimum exposure to custody risks, if any.

The securities given to MAOF-CH as collateral are deposited in accounts in the name of MAOF-CH at TASE-CH, which is a sister company of MAOF-CH and is wholly owned by TASE. Accordingly, MAOF-CH has a high degree of confidence in its ability to access and realize the aforesaid assets at any time. TASE-CH is also supervised by the ISA and is recognized by the latter as a clearing house that complies with the Core Principles set forth by CPMI-IOSCO for financial market infrastructures.

MAOF-CH manages its investments in securities through external portfolio managers that are selected in an orderly process, in accordance with the investment policy determined by the Clearing House's board of directors. In order to allow the selected portfolio managers access to the managed assets, the securities are deposited at commercial banks that are incorporated in Israel and that are



subject to regulatory supervision by the Supervisor of Banks acting under the powers vested in him by the Bank of Israel. In addition to his supervision and control functions, the Supervisor of Banks is responsible for regulating the operations of the banks, inter alia, by means of prescribing directives for the safeguarding of clients' assets, directives to ensure financial stability, directives for risk management, directives for financial reporting, and so forth.

MAOF-CH has determined criteria for the selection of the banks that will serve as custodians for its assets, or for the assets of the clearing members (to the extent that these are deposited in commercial banks – see Principles 4, 5, 6, 7 and 9 for more information on the management of the collateral and the settlement processes), which address, inter alia, the financial strength of the bank. Additionally, in order to minimize the exposure to concentration risk, the Clearing House has determined that it will be required to maintain accounts with at least two banks that are not members of the same banking group, where the minimum amount in each such account, whether in cash or in securities, will be equal to the Clearing House's share of the default waterfall. Furthermore, restrictions have been imposed at the TASE Group level on the maximum portion of the total balances maintained in commercial banks that may be managed by a single bank.

Key consideration # 2:

An FMI should have prompt access to its assets and the assets provided by participants, when required.

The assets provided by the clearing members as collateral are pledged in favor of the Clearing House and are held under its full control; they are required to be from the member's own resources, available at all times and free of any pledge, charge, attachment, lien or other third-party right. Furthermore, MAOF-CH has strong legal arguments, based on safeguards prescribed for its benefit in the Securities Law, that ensure its ability to access and realize these assets promptly and without material, if any, exposure to any such obstacle.

With regard to this, the Law expressly states that a charge on securities granted by a clearing member in favor of the Clearing House shall take precedence over charges in favor of third parties, if the Clearing House has control of the securities in one of the ways specified in the Law.

In addition, it is prescribed that a charge on securities in favor of the Clearing Houses can be realized by the Clearing House itself without a court order, or an order from the Chief Enforcement Officer, subject to the terms set forth in the Law (see Principle 1).

The assets of the Clearing House are deposited in the accounts kept in its name at commercial banks, as described in key consideration #1 above, and are not pledged in favor of any third party.

Key consideration # 3:

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

As stated under key consideration # 1, the Clearing House assesses that it has only minimal, if any, exposure to the Bank of Israel, with which the Clearing House deposits the members' funds that are provided by them as collateral, and to TASE-CH, at which are held the securities given as collateral in favor of MAOF-CH.

Most of the banks in Israel also act as clearing members, or are subsidiaries of clearing members, and the Clearing House examines the overall exposure to such banks and its ability to act in the event of a clearing member's default, if and when said clearing member is also a custodian of its assets, as well as its ability to fulfill its commitments toward the rest of the clearing members. Accordingly, the Clearing House has set out restrictions for the management of its accounts in commercial banks, as described in key consideration #1 above.

Key consideration # 4:

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

MAOF-CH has a policy for investing its monetary reserves in securities, which is approved by the Clearing House's board of directors and is consistent with the risk appetite of the Clearing House.



As part of this policy, it is prescribed that the asset classes in which the portfolio managers may invest are Israeli government treasury bills and bonds, which the Clearing House believes to be assets having minimal credit, market and liquidity risks. The investment policy also prescribes additional criteria pertaining to the length of the exposure period, concentration limitations, the manner in which transactions are to be conducted, the selection of the portfolio managers, and such like.

MAOF-CH has established an ongoing control mechanism over the activities of the portfolio managers, so as to ensure that they are complying with the restrictions imposed upon them, as well as a control over changes in the value of the assets. At least once a quarter, the Clearing House sends a detailed report to the Clearing House's board of directors regarding the performance of each portfolio manager and the yields achieved by them, as well as reviewing the changes that need to be made to this policy in light of changes in the Clearing House's risk profile or in market conditions, should any such changes have occurred.

MAOF-CH's investment policy is identical to the investment policy of TASE, with this being disclosed in TASE's financial statements that are available to the public on the MAYA website and on the website of TASE.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

The entire operational risk management framework is run partly by the Clearing House – with respect to the clearing, payment and settlement processes performed by it, and this is supplemented by the operational risk management framework at TASE, since TASE provides the technological and physical infrastructure needed by the Clearing House for its operations. The entire operational risk management framework comprises the establishment of policy, procedures and processes for managing all the risks and their ramifications that are inherent in the operational activities of the Clearing House, the aim of which is to ensure the operational continuity and reliability of the Clearing House. The Clearing House has a detailed plan for ensuring its business continuity, including various scenarios that could have a material impact on its regular operations.

Key consideration # 1:

An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

MAOF-CH has established an appropriate operational risk management framework comprising the definition of cross-organizational policy and procedures, the aim of which is to identify, monitor, manage and control the operational risk – both at the level of each process and at the level of the organization as a whole. Furthermore, MAOF-CH implements its own operational risk management framework for processes and activities carried out by the Clearing House, as well as a framework at the level of the TASE Group in respect of infrastructure and services that TASE provides to the Clearing House, which include, inter alia, technological infrastructure and IT systems, systems and

resources for information security and cyber risk prevention, human resources, physical infrastructure, and so forth.

The operational risk management framework includes the definition of the areas of responsibility within the various lines of defense, a definition of the reporting lines between the organs at the Clearing House and/or TASE, as the case may be, and the principles and resources for identifying, monitoring, managing and mitigating each risk.

The procedures and processes that exist at the Clearing House and/or TASE for identifying and characterizing the various risk foci include, inter alia, identifying new risk foci, monitoring, mapping and identifying the various risk foci for each new activity or product, drawing conclusions from reports regarding malfunctions and deficiencies that were found, reviewing audit findings, annual validation of the risks map, and conducting a periodic comprehensive operational risk survey at least once every three years.

Additionally, the internal procedures of the Clearing House prescribe a process for the definition and monitoring of key risk indicators (KRI) at the Clearing House, whether quantitative or qualitative, and/or of statistical benchmarks. The indicators are intended to provide information on the risk foci of the Clearing House, facilitate the identification and handling of risks based on a review of both past and current performance, and generate insights with respect to the exposures of the Clearing House.

As aforesaid, the identification of risk foci and/or a change in their assessment could result from the occurrence of operational events and deficiencies. The Clearing House has determined procedures and processes for reporting the occurrence of operational events and deficiencies, collecting information and holding of inquiries with relevant functions, drawing of conclusions and monitoring the implementation of ensuing recommendations. The reporting of the events, the collection of the information and the documentation of all subsequent actions are carried out in a dedicated system, among others, for the purpose of preserving and sharing the accumulated knowledge, examining the efficiency and effectiveness of the processes by linking events, as well as for enhancing awareness among the various units and preventing the recurrence of the events and



deficiencies. The Clearing House appoints a liaison for the management of the operational risk in each of TASE's departments.

The human resources management policy that is set at the TASE group level, is adopted by the Clearing House's board of directors and consists of a broad spectrum of aspects, which include, inter alia, human resource planning for the Clearing House, the recruitment process, management of the absorption and instruction processes, professional development and training for the Clearing House's employees, evaluation and compensation processes and employment termination. The policy also specifies the principles for the creation of an organizational culture among the employees of TASE and those of the Clearing House in particular, as well as for assimilating the procedures that constitute the Code of Ethics that is binding on every employee – such as safeguarding confidentiality, prohibiting the receipt of benefits, preventing sexual harassment, prohibiting investment in securities, and so forth.

The Clearing House, through TASE's departments, conducts exercises from time to time on various topics related to business continuity and emergency situations – such as fire or earthquake evacuation exercises. The Clearing House, through the IT department, customarily involves the members when conducting testing prior to launching new products or systems and in technological business continuity exercises. Human factor risk management takes place starting with a unified and stringent recruitment process, which includes conducting examinations and preliminary testing prior to an employee's engagement, including his professional suitability and qualifications for the position for which the employee is recruited. The Clearing House, through TASE, conducts professional training, instruction and employee development during the course of the employee's engagement, including training processes for the various management levels.

The Clearing House's board of directors approves the operational risk management policy at least once a year.

Key consideration # 2:

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

As stated, the overall operational risk management framework at MAOF-CH is anchored on a task-related policy document that is approved by the board of directors, reviewed at least once a year and addresses operational risk management principles, the spheres of responsibility and the roles of all the lines of defense in managing the risks and the reporting lines between the lines of defense, the various organs within the Clearing House and TASE, as the case may be, and the means and tools for managing and mitigating the risks. The lines of defense that have been determined are in line with the Clearing House's risk management policy (see Principle 3).

All policy documents relating to operational risk management need to be reviewed and reapproved by the Clearing House's board of directors at least once a year. This is also the case with respect to the policy documents defined at the level of TASE, and these need to be adopted by the Clearing House's board of directors, provided that these contain reference to specific aspects of the Clearing House. Where applicable, orderly and updated review processes are established prior to any relevant policy document brought before the board of directors for re approval.

In addition to the annual review processes, MAOF-CH – together with TASE – conducts an extensive operational risks survey once every three years, performed by an external party that is independent of the Clearing House. The survey's findings are reported to the relevant management parties, to the Risk Management Committee and to the board of directors.

The Clearing House through TASE's departments, conducts exercises from time to time on various topics related to business continuity and emergency situations – such as fire or earthquake evacuation exercises.

The Clearing House, through the IT department, customarily involves the members when conducting testing prior to launching new products or systems and in technological business continuity exercises.

Key consideration # 3:

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

MAOF-CH in particular and the TASE Group in general consider operational risk in its entirety to be a fundamental and inherent risk in all the operations of the Clearing House and TASE, which arises from conducting operations and providing services to the market. Accordingly, the Clearing House needs to achieve a high level of operational reliability in order to safeguard its stability and demonstrate its responsibility toward the financial market.

MAOF-CH, through TASE, implements qualitative testing to test the functioning of the IT systems and to identify potential failures, carries out ongoing maintenance on the various systems and maintains control and reporting processes in relation to operational events/deficiencies, including the establishment of a procedure for dealing with extraordinary operational events arising from exceptional system events and a mechanism for sending alerts to senior parties, as well as processes for drawing conclusions from such events and implementing them. In addition, a support array has been put in place for users of the systems within the organization and at the clearing members.

Key consideration # 4:

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

MAOF-CH and TASE conduct monitoring and control processes for changes in resources that may be required to ensure the proper management of information capacity to support operating activities and prepare to handle extraordinary events.

The monitoring process is based on system procedures for real-time data monitoring, on daily and intraday controls, on setting limits and on transmitting exception alerts for current activities.

Key consideration # 5:

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

MAOF-CH, through TASE, maintains a strict and stringent infrastructure for data security and for physical security in accordance with international quality standards (ISO) and in accordance with the most stringent standards set by the Israel National Cyber Directorate. This infrastructure includes data traffic monitoring systems, strict procedures for data leakage prevention, stringent restrictions and barriers to accessing external data, strengthening security at the personal computer stations of the Clearing House's employees in relation to connecting external devices, rules for security checks and profiling of employees and visitors, and so forth.

In addition, the Clearing House and TASE, by virtue of their being a significant part of the financial market in Israel, are familiar with the existing and potential threats of cyber-attacks by various parties. Accordingly, the Clearing House maintains a policy and stringent procedures for assessing its exposure, establishing defenses and means of coping with such attacks.

In addition, TASE handles, the security of all its infrastructure facilities on behalf of the Clearing House. This is done by establishing various security rings, including a perimeter security ring, internal security rings, advanced technological security systems and making every employee responsible for identifying unauthorized parties, as well as establishing continuous and ongoing communications with external security parties, including receiving general and specific alerts regarding the facilities of TASE and the Clearing House.

Key consideration # 6:

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a widescale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

TASE has defined a business continuity plan for the whole Group in various emergency event situations that could disrupt the conduct of its operations and the provision of services to the market. This plan has been approved by the Clearing House's board of directors and identifies, inter alia, the human resources and critical systems of the Group as a whole and of the Clearing House in particular. The plan also defines procedures and conduct for coping with such events, based on the defined crisis levels and analogous scenarios, so as to restore the operation of the critical systems in a timely fashion and specifies spheres of responsibility of the various organs in coping with the defined events and the reporting method.

TASE maintains a backup facility that is geographically distant from its main facility and that has identical infrastructure for conducting the operations and running the identified critical systems. The Clearing House has procedures for maintaining the capability to transfer its critical operations so that they can be conducted from the backup facility, including the recording and saving of data in real time and in parallel with safeguarding the primary systems. TASE conducts a variety of exercises in order to assess its capability to make the transition to the backup facility in real time and involves the clearing members whenever this is relevant to the type of exercise.

The business continuity plan is reviewed at least once a year and has to be reapproved by the Clearing House's board of directors.

Key consideration # 7:

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

The Clearing House, through TASE, maintains procedures and processes to minimize information technology (IT) risks in order to ensure proper connectivity for those given access to the Clearing House's various systems, which include, inter alia: a direct connection TASE and the Clearing House systems by means of a direct physical communications infrastructure, which minimizes exposure to disruptions in the continuous communications between the Clearing House and the clearing members; meeting the strict requirements for setting up information security in the clearing member's systems that communicate with Clearing House and TASE systems; and monitoring data transmission. The Clearing House operates a technical and applicative support array for the functions defined as clearing members system users.

The Clearing House maintains a policy and procedures in matters relating to its communications with outsourcing providers and the ongoing risk management that these impose on the Clearing House, with emphasis on establishing precursory checking processes prior to actually entering into an engagement and receiving services.



Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

MAOF-CH has anchored the Clearing House membership requirements in its By-laws and strives to achieve an effective balance between permitting open access to all the participants and minimizing risk exposure for the Clearing House and for the Israeli securities market. The requirements for membership of the Clearing House are prescribed in the By-laws that are disclosed publicly on TASE's website. Supervision of the clearing members is conducted in conjunction with TASE, in light of the basic requirement pursuant to which a clearing member has first to be a TASE member and, as such, it also needs to fulfill the membership requirements of TASE, as prescribed in the TASE Rules and Regulations.

Key consideration # 1:

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk related participation requirements.

Membership of MAOF-CH is open only to an entity that is a TASE member (other than in the case of a remote member) and, as such, the entity is required at all times to be in compliance with TASE's membership eligibility conditions and the rest of the obligations imposed on it in accordance with the TASE Rules and Regulations, as these shall be from time to time.

A TASE member seeking to be accepted as a MAOF-CH member is required at all times to be in compliance with the membership eligibility conditions and the rest of the obligations imposed on it in accordance with the Clearing House's By-laws, as these shall be from time to time, including the obligations to which it is subject as a TASE member, as stated above ("the Clearing House membership conditions").

It should be clarified that the Clearing House membership conditions include both the Clearing House's and TASE's membership conditions and reference to them in this Disclosure Document,



either individually or collectively, does not suffice to cancel or lessen the necessity for their complete fulfillment in their entirety.

The clearing members are divided into banking corporations and nonbanking corporations ("NBM's"), with some of the membership conditions prescribed specifically for one category of member, while others are general and – together with the MAOF-CH membership conditions – are intended to ensure the ability of every member to meet its obligations arising from transactions executed at the Clearing House.

The application to become a member of the Clearing House requires the approval of the Clearing House's board of directors, which may also impose obligations on members – either by a general directive to all the members or by a special directive to a specific member or a specific category of member or a specific type of activities, including the provision of additional collateral and guarantees.

In order to ensure the Clearing House's stability, the clearing members undertake to maintain a minimum equity, to participate in the default fund at a rate that matches the scope of their activities with the Clearing House, to establish a suitable technical and organizational array to enable them to work with the Clearing House, and to appropriately insure themselves, all in accordance with that prescribed in the By-laws.

With regard to the monetary settlement, clearing members that are banking corporations are required to participate in the Bank of Israel's RTGS system and the NBM's are required to enter into an agreement for this purpose with a clearing member that is a banking member.

Moreover, additional directives regarding the maintenance of financial stability, risk management arrays, and other aspects apply to the clearing members, both for Israeli banking corporations that are subject to the directives of the Banking Supervision Department and also for NBM's by virtue of the provisions of the TASE Rules and Regulations.

In order to achieve an effective balance between the desire to allow open access to the Clearing House's services and the risk management limits and requirements, the Clearing House strives to identify and remove potential barriers in the membership conditions so as to enlarge the number

of clearing members, while concurrently identifying, monitoring and controlling the risk exposures arising from the activities of each existing member, or those that could arise from the activities of potential members of various types.

In addition to the business benefits this generates, the Clearing House views the enlargement of its member base as a means to manage and minimize its exposure to the various risks, and particularly as a means to minimize the exposure to concentration risks.

Key consideration # 2:

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.

As stated, a clearing member is required to comply at all times with the obligations imposed on it by the Clearing House's By-laws, as part of the Clearing House's membership conditions, including the obligation to meet all its commitments regarding transactions that it executes, to participate in the default fund, to deposit additional collateral on demand (and not necessarily as part of the default fund), and to maintain a suitable technical and organizational array.

Banking corporations are subject to regulation prescribed in the directives of the Supervisor of Banks, which outline a broad framework for ensuring the financial and operational stability of the banks in particular, and of the financial system in general, while the clearing members that are not banking corporations are subject to the provisions that regulate the financial stability and operations prescribed in the TASE Rules and Regulations. Due to the supervisory structure over the financial stability of the clearing members, as described above, the Clearing House strives – in conjunction with TASE – to establish a minimal level of standardization through its financial stability directives among all its members, with whatever adjustments are necessary, to the extent that this is possible and practicable.

As the requirement to deposit collateral in the default fund is material in relation to the other obligations that the clearing member is required to fulfill, the Clearing House strives to construct a risk-orientated objective calculation model, so as to ensure a response to the risks that might materialize in the event of a member's default, on the one hand, and so as not to harm the efficiency of the market, on the other hand. Moreover, the mechanism for determining each member's share in the default fund is also risk-orientated and objective, thereby reflecting the scope of the clearing member's activities (see Principle 4) and ignores whether the member is a banking corporation or an NBM.

The Clearing House and TASE maintain ongoing communications with the clearing members, are attentive to market needs in relation to requirements that restrict fair and open access to their services and strive to achieve an effective balance between the desire to allow such open access and the need to minimize the risk exposure for the Clearing House and for the market.

The requirements for membership MAOF-CH and of TASE are disclosed publicly on TASE's website.

Key consideration # 3:

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Supervision of clearing members' compliance with the requirements of the By-laws and of the TASE Rules can be divided into two complementary layers:

- Supervision of clearing members' compliance with the requirements of the By-laws, which have an operational aspect deriving from the basket of services and from the clearing members' ongoing daily conduct with the Clearing House, is conducted on a continuous basis by the Clearing House.
- Supervision of clearing members' compliance with various aspects, some of which are specific while others are general, including compliance with the Clearing House's membership eligibility

- conditions and conformance with the existing arrangement in the By-laws that deals with relations between the clearing members and their clients, is conducted by TASE.

TASE's supervision activity vis-à-vis the clearing members is conducted in accordance with an approved supervision policy and is based on an annual and multiyear work plan, at the basis of which is an aspiration for risk-focused supervision, with emphasis also placed on other quantitative and qualitative considerations. For the purpose of implementing the aforesaid work plan, dedicated checks are performed by professional teams, both on-site at the clearing members and also by other means, including through the monitoring of information contained in the reports and notices received from clearing members in accordance with the reporting obligations to which they are subject vis-à-vis TASE and the Clearing House, and also by means of monitoring public (off-site) information.

Ongoing reports regarding supervisory activity and its results are presented to the relevant parties at TASE, with the board of directors having the authority to impose additional obligations on the members, including the provision of additional collateral and guarantees, at its discretion and should it identify a need for such action.

MAOF-CH has clear rules and procedures for granting or revoking membership of a clearing member, provided that the Clearing House has proper cause or causes for doing so, including due to the member having not yet complied with the Clearing House's membership conditions or where there is a concern that the clearing member will be unable to meet its obligations with respect to transactions that it has executed. The rules and procedures regarding this are anchored in the Clearing House's By-laws and are disclosed publicly on TASE's website.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

MAOF-CH acts to identify the material risks that could arise from third parties.

Key consideration # 1:

An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.

MAOF-CH's membership model does not allow tiered participation arrangements and, as such, the Clearing House's exposure at any time is solely toward the clearing members (a principal-to-principal model) and it is not exposed directly to default of a clearing member's client. Responsibility for the risk management of activities conducted by clearing members' clients is borne by the clearing members alone.

The clearing members, and they alone, can send clearing orders to the Clearing House and such orders must be in their name alone. Every clearing transaction arising from the clearing orders, whether direct or indirect, is to be carried out on the relevant account in the member's name, or in the Clearing House's name, as the case may be. In the event of the clearing member failing to meet its commitments (either in inventory or monetary terms) with respect to transactions that it performed, such commitments will be met instead by the Clearing House and the title to the securities bought will then belong to the Clearing House, with all this in accordance with the provisions and terms prescribed in the By-laws.

Key consideration # 2:

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

Activities of clearing members that are banking corporations are supervised by the Supervisor of Banks, who has prescribed strict stability directives aimed at ensuring the stability of the banking

system and the financial market in Israel, including the imposition of concentration limits between the banks and their customers.

Clearing members that are not banking corporations are subject to supervision of their stability by TASE and, within the framework of said supervision, concentration limits are also imposed on the exposure of such clearing members toward their clients.

Key consideration # 3:

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

MAOF-CH is exposed to business risk with respect to the activities of indirect participants responsible for large trading volumes on TASE. Since the revenues of the Clearing House are largely dependent on trading that takes place on TASE, the failure of a single participant could lead to a decrease in the Clearing House's revenues in the short term.

Key consideration # 4:

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

MAOF-CH does not have any tiered participation agreements.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

The links that MAOF-CH has with infrastructure entities in the financial market (“infrastructure entities”) do not create material risks for the Clearing House. The Clearing House receives settlement and custody services from TASE-CH, which is a wholly-owned subsidiary of TASE.

Key consideration # 1:

Before creating a link arrangement and on an ongoing basis once the link is created, an FMI should identify, monitor, and manage all potential sources of risk arising from such arrangements. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

The links that MAOF-CH creates with other infrastructure entities do not create material risks for it in relation to the risks that arise from the activities of the clearing members and from its own activities, as set forth below:

- **Link with payment systems**

MAOF-CH performs monetary settlement using the Bank of Israel’s RTGS system, which conforms with the definition of a payment system in accordance with the PFMI document, such that MAOF-CH has a strong dependence on said system to the extent that, without it the Clearing House would be unable to execute the monetary settlement on time. However, due to the system belonging to and being operated by the Bank of Israel, which is the central bank of the state of Israel, the proper operation of the system is of systemic importance to the whole Israeli economy in general and to the Israeli banking system in particular; therefore, the Clearing House has a high degree of confidence in the reliability of the system and in the reliability of the monetary settlement process performed using said system. It is possible for TASE-CH to perform monetary settlement through the Bank of Israel without using the RTGS system, although in such an instance settlement would not be done simultaneously.

In light of the fact that the exposure is to the Bank of Israel, the Clearing House does not have additional risks, other than the operational risks described above.

- **Link with central securities depositories (CSDs)**

MAOF-CH receives from TASE-CH, which is a sister company of MAOF-CH and is wholly owned by TASE, depository services for the securities that are deposited as collateral in inventory accounts in the name of MAOF-CH at TASE-CH. MAOF-CH's exposure to TASE-CH's default is minimal, if at all. It should be emphasized that despite the companies being sister companies in the TASE Group, each clearing house establishes a separate risk management framework and is organized so as to be able to ensure stability and continuity of activities with no connection to actions taken by the other.

Every new agreement with an infrastructure entity in the financial market will be examined in the same way as new activities and products, including identifying all the risk foci and determining the means to monitor, minimize and manage them in accordance with the overall risk management policy of the Clearing House.

Key consideration # 2:

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

MAOF-CH's activities with the Bank of Israel's RTGS system are conducted according to the rules determined by the Bank of Israel for activities with the system, which constitute a stable, clear and well-founded legal basis for all the system's participants.

Key consideration # 3:

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

MAOF-CH's credit exposure (if any) to TASE-CH that provides it with depository services as a CSD is not material (see key consideration # 1).

Key consideration # 4:

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

MAOF-CH is not a CSD.

Key consideration # 5:

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.

MAOF-CH is not a CSD.

Key consideration # 6:

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

MAOF-CH is not a CSD.

Key consideration # 7:

Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.

MAOF-CH has no link with other CCPs.

Key consideration # 8:

Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.

MAOF-CH has no link with other CCPs.

Key consideration # 9:

This key consideration is for entities that are Trade Repositories and is therefore not relevant to MAOF-CH.



Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

The efficiency and effectiveness of MAOF-CH is examined and determined by TASE, as it does for all the companies in the TASE Group. It does so with an understanding and from a viewpoint that recognizes the importance of the group as a whole to the financial market, as well as that of MAOF-CH on its own.

Key consideration # 1:

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

TASE plays a central role in the Israeli economy and contributes significantly to its growth. Numerous Israeli companies are assisted by TASE in funding their investments and their business operations. The government is also assisted by TASE in selling shares to the public as part of the privatization of government corporations and in raising debt to finance its expenditure and achieve its monetary goals.

As it is a wholly owned subsidiary of TASE, MAOF-CH is integral to the central role that TASE plays in the Israeli economy, in addition to the other services that the Clearing House provides to the financial market in Israel.

The Clearing House views ensuring its financial stability and its ability to meet its obligations as a counterparty in MAOF transactions performed on TASE as its principal response in fulfilling the public interest and in meeting the needs of the clearing members.

TASE operates a technological array for MAOF-CH in order to ensure high operational reliability of the clearing systems, including safeguarding its ability to rapidly restore its operations upon the occurrence of an emergency event or in case of a disaster.



Likewise, TASE provides the clearing members with a support array for use with the various systems and, to this end, sets service goals to guarantee fast response times.

The TASE Group in general and MAOF-CH in particular establish communication channels with the clearing members and with other market participants, in relation to various areas (such as: risk management, IT systems, information security, trading room and back-office managers), and are attentive to the needs of the financial market that they serve.

Key consideration # 2:

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

The strategic goals and objectives of the Clearing House are set as part of the multiyear strategic plan of the TASE Group, while taking a systemic viewpoint and bearing in mind the importance of the TASE Group to the Israeli financial market. The goals are set in a manner that is measurable and achievable.

The Clearing House annually reviews the risk appetite limits that were set and updates them where necessary, and the Clearing House's work plans are reviewed in accordance with the set limits.

The Clearing House, through TASE, defines minimum service goals as part of the technological array that it operates. The board of directors is the organ responsible for setting MAOF-CH's strategy and is also responsible for tracking and control over its implementation; likewise, together with TASE's CEO, it also sets the goals for each of the members of management in order to assist in realizing the Clearing House's goals.

Key consideration # 3:

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

TASE prescribes the annual work plan for all Group companies every year, including setting goals and detailing the projects that it wants the Clearing House to execute during the year, TASE also sets the annual budget in accordance with the work plan.



TASE performs ongoing monitoring of the achievement of the budget and work-plan goals set at the beginning of the year and sends periodic reports regarding this to management and the board of directors, with the aim being alignment of the work plan and budget goals with the risk appetite set by the Clearing House's board of directors.



Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

MAOF-CH operates communication procedures that comply with generally accepted standards and adapts them for its own use for the purpose of sending and receiving reports and notices regarding payments, clearing, settlement, and recording.

Key consideration # 1:

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

MAOF-CH's clearing activities are conducted for the Israeli financial market; the Clearing House does not conduct clearing activities for regions under foreign jurisdiction. Accordingly, even though it is under no obligation to conform with international standards and procedures in establishing its communications, the Clearing House aims to maintain a robust infrastructure and a stable array of procedures, standards and strict requirements for the establishment of communications, which match such standards and procedures.

Every clearing member, as it is a TASE member, has a physical communications line connecting it to the trading and clearing systems of the TASE group that minimizes possible communication disruptions and ensures that the communications infrastructure is stable, reliable and complete.

Clearing orders can be received by the Clearing House through the TASE trading system or through other systems, such as SWIFT, with the Clearing House performing the monetary settlement in the Bank of Israel's RTGS system and by means of the SWIFT system in accordance with the ISO-15022 standard.

The Clearing House maintains a dedicated system for the transfer of data, information and notices by transferring electronic files via FTP (the File Transfer Protocol). Said files are sent during the trading day and at the end of the clearing day. Within the framework of these electronic files, the



Clearing House transfers to its members data regarding the clearing results in each of the clearing rounds performed, information about clearing orders received by the Clearing House and the clearing actions performed with respect thereto, information regarding the collateral value, etc.

At the end of each day, MAOF-CH sends the clearing members the parameters for calculating the margin requirement and, on the following day, before the opening of trade, the clearing member sends an electronic file containing data about the positions recorded by it and the Clearing House tests for difference, if any, and updates the margin requirement should this be necessary.

Every time a new type of electronic file is developed, whether in response to an internal request or in response to a request from a clearing member, the Clearing House performs processes for the file's development, its approval, its testing and its deployment in accordance with orderly procedures; in addition to these, the Clearing House provides a support center for its members and a system for monitoring and identifying failure events in the transfer of data.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

MAOF-CH's By-laws regulate all aspects of the Clearing House's operations, anchor the rights and obligations of the Clearing House and of the clearing members with respect to of said operations and are publicly disclosed on TASE's website. In addition to the Clearing House's By-laws, the fees list for the Clearing House's services is also published on TASE's website.

Key consideration # 1:

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

MAOF-CH's By-laws regulate all aspects of the Clearing House's activities and anchor the rights and obligations of the Clearing House and of the clearing members with respect to said activities.

MAOF-CH's By-laws also regulate the membership eligibility conditions, the collateral policy, the requirement for collateral within the framework of the margin requirement and the default fund, the manner in which the Clearing House is to act should a clearing member contravene its rules, default arrangements for a situation in which a clearing member is unable to meet its obligations toward the Clearing House and/or toward the other clearing members, settlement finality arrangements, and extensive arrangements relating to the operational aspects needed to perform the Clearing House's activities.

Any change or update to the Clearing House's By-laws needs to be approved by its board of directors. Prior to presenting the proposed change or update to the Clearing House's By-laws for discussion and approval by the Clearing House's board of directors, the aforesaid proposal is sent to the clearing members for their comments. Whether or not the Clearing House decides to amend the proposal following the comments received from the clearing members, all comments received

from the clearing members are reported to the Clearing House's board of directors. The board of directors' decisions are publicly disclosed on TASE's website.

In addition to its By-laws, the Clearing House maintains an array of policies and internal procedures that include, inter alia, frameworks for risk management at the Clearing House, operational procedures and processes for executing all Clearing House activities, procedures for establishing communications with clearing members, procedures for the maintenance of the IT infrastructure, procedures regulating internal organizational activities, etc. Whenever the Clearing House identifies certain procedures as key procedures and deems it appropriate that they be so defined, such procedures are anchored in the Clearing House's By-laws.

The Clearing House maintains communication channels with the clearing members and they are able to request any additional information that is relevant to their activities with the Clearing House, including for management of the risks arising from their activities with the Clearing House or from their activities with the other clearing members.

MAOF-CH provides the public with lines of communication and means to contact the Clearing House regarding any matter, through the TASE website. MAOF-CH has no information or evidence that the by-laws are not sufficiently clear.

Key consideration # 2:

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

As stated above, the By-laws include a broad description of all the aspects clearing members need in order to understand the clearing arrangements at the Clearing House, which include, inter alia, the rights and obligations of the clearing members, Clearing House membership conditions, models for calculating the collateral requirement in relation to their Clearing House activities, default arrangements, settlement finality arrangements, connecting to the clearing systems, and other operational aspects.

In addition to the By-laws, other relevant parameters, such as collateral haircuts, are published on TASE's website and are intended to assist the clearing members in assessing and understanding the risks inherent in their activities with the Clearing House.

Through TASE, MAOF-CH makes available to the clearing members an extensive support array for connecting to the Clearing House's systems and for the electronic files that are transferred by the Clearing House to the member.

Key consideration # 3:

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

It is MAOF-CH's intention to lay down rules that will be clear and explicit in order to make it easier for existing clearing members, as well as potential clearing members, to understand all the risks with which they will need to contend by virtue of their membership of the Clearing House, as prescribed in the Clearing House's By-laws.

MAOF-CH provides the clearing members with opportunities to receive training on any topic relating to aspects of their activities with the Clearing House and, in particular, in relation to using the systems and infrastructure that are provided by TASE for the Clearing House's benefit.

Key consideration # 4:

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

The Clearing House's price list is included in TASE's price list and is published on TASE's website. The price list sets out the amounts of trading and clearing fees, listing fees and levies and the fees applicable to other services.

The price list shows the fee for each specific service and also refers to discounts or to certain fees whose payment may be exempted at the Clearing House's discretion.

Changes in the Clearing House's price list needs to be approved by the Clearing House's board of directors, TASE's board of directors and the ISA. Any proposal to amend the Clearing House's fees is published on TASE's website, prior to the matter being discussed by TASE's board of directors. In the event of the public submitting comments regarding the proposed amendment, such comments are brought before TASE's board of directors when this matter is discussed.

Key consideration # 5:

An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO¹³ Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

MAOF-CH has completed the 2019 self-assessment process for implementing the PFMI principles in accordance with the assessment and disclosure framework provided by CPMI-IOSCO¹⁴. The disclosure that is presented in this document, which is drawn up so as to express the results of the Clearing House's self-assessment, is publicly disclosed on TASE's website. Additionally, every quarter TASE-CH publishes a quantitative disclosure, based on the methodology prescribed by CPMI-IOSCO, as a supplement to the information that is included in this self-assessment document.

Considerable information regarding securities trading volumes, prices and transaction values can be found on TASE's website.

¹³ Since September 1, 2014, the committee previously known as CPSS is now called CPMI; see also footnote 1.

¹⁴ **Principles for financial market infrastructures: disclosure framework and assessment methodology**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. <http://www.bis.org/cpmi/publ/d106.htm>.