

# **GUIDE TO STOCK EXCHANGE MEMBERS**

## **THE STOCK EXCHANGE RULES**

### **FIRST PART - STOCK EXCHANGE MEMBERSHIP**

**This is not an official translation and has no binding force.**

**Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the original. In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail. The reader is therefore warned to take proper professional advice before acting further hereto, as neither The Tel-Aviv Stock Exchange Ltd. nor the translators assume any liability for accuracy hereof.**

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# FIRST PART– STOCK EXCHANGE MEMBERSHIP

## Chapter I – General

1. Unless expressly otherwise stated, the expressions in this part shall have the meanings defined in the Securities Law, 5728-1968 (hereinafter referred to as "the Securities Law"), in these Rules and in the Regulations pursuant hereto.

<b>Terms</b>	<b>Definitions</b>
<b>"member"</b>	- a Stock Exchange member.
<b>"NBCM"</b>	- a non-banking corporation member.
<b>"Nostro NBCM"</b>	- an NBCM which operates only for its own account, and which doesn't have clients.
<b>"Custodial Member"</b>	- an Israeli corporation that admitted as a custodial member in the Tel Aviv Stock Exchange Clearing House.
<b>"TASE Member"</b>	- admitted as a Stock Exchange member as provided in this Part of the Stock Exchange Rules and also a custodial member.
<b>"listed company"</b>	- a company, shares in the capital of which are listed for trade.
<b>"Stock Exchange Clearing House"</b>	- The Tel Aviv Stock Exchange Clearing House Ltd.
<b>"Maof Clearing House"</b>	- The Maof Clearing House Ltd.
<b>"monetary assets"</b>	- securities, within the meaning thereof in section 52 of the Securities Law, including derivatives, that are traded on a stock exchange in Israel or overseas, participation units in mutual funds and foreign funds within the meaning thereof in the Joint Investment Trust Law, 5754-1994 (hereinafter referred to as " <b>the Fund Law</b> ") and monies.
<b>"liquid monetary assets"</b>	- monetary assets that are exercisable within 21 days.
<b>"securities portfolio"</b>	- a portfolio that includes monetary assets, securities that are not traded and derivatives that are not traded.
<b>"derivatives"</b>	- options, futures contracts and forward contracts.
<b>"securities business"</b>	- management of securities portfolios, investment counseling, investment marketing, execution of monetary asset transactions on the Stock Exchange and acts ancillary thereto.

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<b>Terms</b>	<b>Definitions</b>
<b>"repo transaction"</b>	- as such expression is defined in the by-laws of the Stock Exchange Clearing House.
<b>"MTS system"</b>	- as such expression is defined in the by-laws of the Stock Exchange Clearing House.
<b>"equity"</b>	- initial equity, or initial equity plus secondary capital, within the meaning thereof below, unless expressly stated otherwise.
<b>"initial equity"</b>	<ul style="list-style-type: none"> <li>- equity in accordance with accepted accounting rules, pursuant to the last financial statements, together with amounts received by reason of a capital increase effected after the date of the financial statements as aforesaid, insofar as effected, and less the total of all the following amounts: <ul style="list-style-type: none"> <li>- dividends declared thereon and/or distributed after the date of the financial statements as aforesaid;</li> <li>- the difference between the amounts lost by the NBCM and the amounts earned by the NBCM, after the date of the financial statements as aforesaid, insofar as it exceeds 10% of the NBCM's initial equity.</li> </ul> </li> </ul>
<b>"long-term loan"</b>	- a loan that is repayable in one payment, the period of time remaining until the maturity of which is more than one year, or part of a loan that is repayable in installments, the period of time remaining until the maturity of which is more than one year.
<b>"secondary capital"</b>	- long-term loans that may not be repaid within the short term, provided that such loans comply with the terms and conditions prescribed in the Regulations;
<b>"nostro"</b>	- a member's own account.
<b>"client"</b>	- a client of a member, including a client who is an interested party in a member, and including nostro.
<b>"monetary credit"</b>	- the amount of a shekel loan given by the NBCM to its client and/or 200% of the amount of a foreign currency loan given by the NBCM to its client, less the maximum value for collateral purposes of a bank deposit in such foreign currency, as provided in the Regulations.
<b>"other credit"</b>	- the client's liabilities to the NBCM by reason of its activity in derivatives and/or Repo and/or by reason of short sales of the client, which are computed as provided in the Regulations.

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<b>Terms</b>	<b>Definitions</b>
<b>"credit"</b>	- monetary credit and other credit.
<b>"liquid credit"</b>	- credit given by an NBCM to its client, which the NBCM may and can require for repayment within 21 days.
<b>"liquid monetary credit"</b>	- monetary credit that is liquid credit.
<b>"secured liquid monetary credit"</b>	- liquid monetary credit against which the NBCM has received full collateral, within the meaning thereof in the Regulations.
<b>"unencumbered assets"</b>	- assets that are unencumbered by any charge, attachment, lien or other third party right.
<b>"assets recognized as unencumbered"</b>	- monetary assets that are not unencumbered assets, which pursuant to the Rules may be treated as unencumbered assets.
<b>"unencumbered liquid monetary assets"</b>	- liquid monetary assets that are unencumbered assets.
<b>"unencumbered liquid assets"</b>	- unencumbered liquid monetary assets and secured liquid monetary credit.
<b>"net unencumbered liquid assets"</b>	- the value of the unencumbered liquid assets, plus the value of the assets recognised as unencumbered, less the amount of the monetary risk inherent in the unencumbered liquid monetary assets, within the meaning thereof in the Regulations, less the amount of the monetary risk inherent in the assets recognized as unencumbered, within the meaning thereof in the Regulations, and less the amount of the monetary risk inherent in credit given by the NBCM to its clients, which is secured liquid monetary credit, within the meaning thereof in the Regulations.
<b>"non-balance sheet liabilities"</b>	- liabilities that are not included in the NBCM's financial statements, including the amount of the monetary risk inherent in guarantees provided by the NBCM in favor of its clients, the amount of the monetary risk inherent in liabilities of the NBCM's clients to the NBCM by reason of their activity in derivatives and in Repo, and all within the meaning of such expressions in the Regulations.
<b>"amount of the monetary risk inherent in the liabilities"</b>	- an amount that is not included in the NBCM's financial statements, which expresses the monetary risks inherent in liabilities of the NBCM that are included in the NBCM's balance sheet, as provided in the Regulations.

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<b>Terms</b>	<b>Definitions</b>
<b>"company operating overseas"</b>	- a company that only operates and provides services overseas, which does not have offices in Israel.
<b>"senior manager"</b>	- a director, CEO, manager and a holder of another office in the member who the Board of Directors determines is a senior manager for the purpose of this part.
<b>"external director"</b>	- a director who meets the qualification conditions of an external director as set out in section 240 of the Companies Law, 5759-1999 (hereinafter referred to as " <b>the Companies Law</b> ").
<b>"insurer"</b>	- within the meaning thereof in the Control of Insurance Business Law, 5741-1981.
<b>"portfolio manager"</b>	- a person whose activity requires a licence for investment portfolio management pursuant to the Investment Counseling & Portfolio Management (Regulation) Law, 5755-1995 (hereinafter referred to as " <b>the Counselling Law</b> ").
<b>"investment counseling"</b>	- within the meaning thereof in the Counseling Law.
<b>"first-rate international bank"</b>	- an international bank with a long-term rating as follows: S&P rating of A and above, or a Moody's rating of A2 and above, or a Fitch rating of A and above.
<b>"international investment house"</b>	- an investment house, investment bank or brokerage company which has been a member, for at least five years, of a stock exchange in North America or Europe.
<b>"foreign NBCM"</b>	- an NBCM which is a fully owned subsidiary of an international investment house, or which is a fully owned subsidiary of a controlling shareholder of an international investment house.
<b>"overseas stock exchange"</b>	- a stock exchange that has been approved by the entity entitled to grant approval pursuant to the law in the country in which it operates, and a regulated market, as defined in the Funds Law.

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<b>Terms</b>	<b>Definitions</b>
<b>"remote member"</b>	<ul style="list-style-type: none"> <li>- a company that was incorporated outside Israel in one of the countries detailed in the Regulations, that:               <ul style="list-style-type: none"> <li>- does not have a permanent representation or branch in Israel;</li> <li>- operates as a stock exchange member on a stock exchange in the country in which it was incorporated;</li> <li>- it has fulfilled the conditions prescribed in the First Part of the Rules and in the Regulations pursuant thereto.</li> </ul> </li> </ul>
<b>"banking corporation"</b>	<ul style="list-style-type: none"> <li>- has the meaning contained in the Banking (Licensing) Law, 5741-1981, provided that it is a company incorporated in Israel.</li> </ul>
<b>"unconditional autonomous bank guarantee"</b>	<ul style="list-style-type: none"> <li>- an unconditional autonomous bank guarantee given by a banking corporation with equity of at least \$100 million or by a first-rate international bank, as defined in the Regulations.</li> </ul>
<b>"share capital"</b>	<ul style="list-style-type: none"> <li>- issued and paid up share capital.</li> </ul>
<b>"supervised company"</b>	<ul style="list-style-type: none"> <li>- a company in which an NBCM holds 50% or more of the share capital or voting rights, that engages in investment portfolio management, investment consultancy, investment marketing and the execution of transactions for others in securities, including derivatives, whether or not traded on the Stock Exchange.</li> </ul> <p>save for:</p> <ul style="list-style-type: none"> <li>a) a company as aforesaid, the controlling shareholder of which is a Stock Exchange member that is a banking corporation, in which the NBCM holds, directly or through its subsidiaries, less than 50% of the share capital and/or the voting power;</li> <li>b) a company as aforesaid, which is a company operating overseas.</li> </ul> <p style="margin-left: 40px;"><b>"holding"</b> - within the meaning thereof in the Securities Law.</p>
<b>"unsupervised company"</b>	<ul style="list-style-type: none"> <li>- cancelled.</li> </ul>
<b>"custodian"</b>	<ul style="list-style-type: none"> <li>- a supplier for custody services for monetary assets of a client, including securities that are not traded and derivatives that are not traded, directly or indirectly, through a third party custodian or sub-custodian, as defined below.</li> </ul>

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<b>Terms</b>	<b>Definitions</b>
<b>"custodian broker"</b>	- a supplier of custody services through another for monetary assets of a client, including securities that are not traded and derivatives that are not traded.
<b>"third party custodian"</b>	- a supplier of custody services to a custodian broker for monetary assets of a client, including securities that are not traded and derivatives that are not traded, whether as a custodian or as a custodian broker through a sub-custodian, as defined below.
<b>"sub-custodian"</b>	- a supplier of custody services to a third party custodian for monetary assets of a client, including securities that are not traded and derivatives that are not traded.
<b>"transfer to a custodial trustee"</b>	- a transfer of monetary assets made further to a transaction on a Stock Exchange in Israel, between an account of a client with a member, which executes transactions on a Stock Exchange in Israel for the client, to the client's account with the custodian.
<b>"qualified client"</b>	- as defined in the Counseling Law.

- 1A. Monetary values pursuant to this part shall be linked to the index and revised each year, on 1st January (hereinafter - the "**revision date**"), pro rata to the change in the determining index compared with the base index, unless expressly provided otherwise.

The aforesaid will also apply to any payment added during the year, after the previous revision date.

For the purposes of this paragraph -

**"the index"** - the Consumer Price Index published by the Central Bureau of Statistics or any other index replacing it, rounded to the two digits after the decimal point.

**"the base index"** - the index last known on the previous revision date.

**"the determining index"** - the last index known on the revision date.

The amounts obtained from the revision as aforesaid will be rounded up as follows:

- amounts of less than NIS 10 will be rounded up to the nearest agora.
- amounts of more than NIS 10 and less than NIS 1,000,000 will be rounded up to the nearest shekel.
- amounts of NIS 1,000,000 and more will be rounded up to the nearest NIS 100,000.

The amounts payable do not include VAT and accordingly, due VAT will be added to every payment. The amount obtained from the addition of VAT will be rounded up to the nearest shekel.

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**Chapter II –**  
**Qualification Conditions and Procedure**  
**for the Admittance of Members**

2. A Stock Exchange member is a company that is incorporated and registered in Israel.

Notwithstanding the aforesaid:

a company that was not incorporated in Israel may be admitted as a Stock Exchange member if it is a first-rate international bank with a branch in Israel, which is a foreign bank within the meaning of such expression in the Banking (Licensing) Law, 5741-1981 (hereinafter referred to as "**foreign bank**"), or if it is a remote member.

3. The Stock Exchange membership qualification conditions for a banking corporation that is a listed company are as follows:
- a. the manager of its central securities unit has training and know-how in the capital market. The company shall give written notice to the Stock Exchange of the appointment and retirement of the central securities unit manager within one day of the appointment or retirement. Notice of the appointment, as aforesaid, shall include details of the manager's training and know-how in the capital market. Notice of the retirement of a manager as aforesaid shall specify, to the best of the company's knowledge, one of the following two alternatives:
    - 1) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention;
    - 2) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances;
  - b. cancelled;
  - c. it has appropriately insured itself, as required pursuant to the Proper Conduct of Banking Business Directives.
4. The Stock Exchange membership qualification conditions for a banking corporation that is not a listed company are as follows:
- a. the qualification conditions under paragraph 3;
  - b. it has given written notice to the Stock Exchange of the identity of the true direct or indirect holders of its shares and undertaken to give notice of any change in the holdings of its shares. Nevertheless, a change of shareholding within a shareholder that is a listed company need not be notified to the Stock Exchange, other than a transfer of the controlling interest in the shareholder that is a listed company.

4A. The Stock Exchange membership qualification conditions for a foreign bank that is not a remote member are as follows:

- a. the manager of its central securities unit in Israel has training and know-how in the capital market.

The company shall give written notice to the Stock Exchange of the appointment and retirement of the manager of the central securities unit within one day of the appointment or retirement. Notice of the appointment, as aforesaid, shall include details of the manager's training and know-how in the capital market. Notice of the retirement of a manager as aforesaid shall specify, to the best of the company's knowledge, one of the following two alternatives:

- 1) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention.
  - 2) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances;
- b. it has appropriately insured itself, as required pursuant to the Proper Conduct of Banking Business Directives;
  - c. it has appointed an internal auditor for its branches in Israel, as required pursuant to the Proper Conduct of Banking Business Directives;
  - d. it has the mechanism, means, computer systems and skilled personnel enabling its proper activity on the Stock Exchange and the performance of its duties to its clients, the Stock Exchange and the Stock Exchange members;
  - e. the Board of Directors may, in its discretion, stipulate additional qualification conditions to those detailed above. In doing so, it may take into account the following matters:
    - 1) the conditions prescribed for the foreign bank in the framework of the foreign bank license it received from the of Bank of Israel;
    - 2) the state laws applicable in respect of the foreign bank in its main place of domicile;
    - 3) the foreign bank's experience on the capital market;
    - 4) the volume of the foreign bank's activity on the capital market;
    - 5) the foreign bank's reputation;
    - 6) the foreign bank's main place of domicile.

5. The Stock Exchange membership qualification conditions for a listed company that is not a banking corporation and that is not a remote member are as follows:
- a.
    - 1) its controlling shareholders and senior managers are of good repute, have not been convicted of an offence involving moral turpitude, unless the period of prescription under the Crime Register and Rehabilitation of Offenders Law, 5741-1981 has expired, and have not been legally declared undischarged bankrupts;
    - 2) its controlling shareholders and senior managers have not been interested parties in a corporation that had been wound up without paying its debts;

However, the Board of Directors may exempt a company from compliance with this condition, if in its opinion, the fact that a controlling shareholder and/or senior manager of the company was an interested party in corporation that had been wound up without paying its debts does not affect the company's capacity to be a Stock Exchange member.
  - b. the transfer of control in it requires the Board of Directors' approval. The Board of Directors' approval may be subject conditions;
  - c. a majority of its directors shall be Israeli residents;
  - d. a majority of its directors have know-how in the capital market;
  - e. the CEO and manager of its securities unit have training and know-how in the capital market. At least one of the senior managers has at least five years' experience of the capital market;
  - f. the company shall give written notice to the Stock Exchange of the appointment and retirement of its senior managers, within one day of the appointment or retirement. Notice of the retirement of a manager as aforesaid shall specify, to the best of the company's knowledge, one of the following two alternatives:
    - 1) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention.
    - 2) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances;
  - g. it has, at all times, equity that is not less than the amount of its operating risk, plus the amount of its monetary risk, within the meaning thereof in the Regulations, or in the alternative, equity that is not less than the amount prescribed in the Regulations, whichever is higher.

In addition, it has, at all times, initial equity that is not less than the amount prescribed in the Regulations.

If the equity required of the company is higher than the initial equity required of it, the company may supplement the amount of the equity required of it, through secondary capital;

- h. it has, at all times, net unencumbered liquid assets in an amount of not less than the sum of all the following amounts:
  - 1) the sum of the company's liabilities that are payable in the short term;
  - 2) the sum of the company's long-term liabilities for which the lender has a right to call for payment in the short term;
  - 3) the amount of the part that is not recognised as secondary capital, of the amount of the long-term loans received by the company, that in accordance with the Regulations may be recognized as secondary capital;
  - 4) the amount of the company's operating risk, within the meaning thereof in the Regulations;
  - 5) the amount of the company's non-balance sheet liabilities;
  - 6) the amount of the monetary risk inherent in the company's liabilities.

and all as prescribed in the Regulations;

- i. cancelled;
- j. cancelled.
- k. it has the mechanism, means and information systems, within the meaning thereof in paragraph 24M. below, as well as professional personnel with suitable qualifications and suitable powers, enabling its proper activity on the Stock Exchange and the performance of its duties to its clients, the Stock Exchange, the Stock Exchange Clearing House, the Maof Clearing House and the Stock Exchange members;
- l.
  - a. it has duly insured itself.
  - b. the company's board of directors shall hold a discussion and approve the areas and extent of the insurance coverage, at such intervals as determined in the Regulations, and in light of a written opinion from an expert in the insurance field.

The insurance shall include at least the areas of coverage detailed in the Regulations.
  - c. the company shall report to the Stock Exchange, at such intervals as determined in the Regulations, on compliance with the due insurance provisions. Reporting as aforesaid shall include the details determined in the Regulations;

- m. cancelled;

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n. **Credit controller**

Its board of directors has appointed a credit and collateral controller (hereinafter referred to as "**the credit controller**").

The credit controller shall have an academic degree in one of the following professions: accounting, business administration or economics, or shall have a license to engage in accountancy, or investment consultancy, or investment marketing, or portfolio management, and shall have the qualifications, know-how and experience befitting the position and responsibilities of credit controller;

The credit controller shall not have any other duties in the NBCM, in addition to the control of credit and collateral, which are likely to create a conflict of interests with the position as credit controller or that are likely to affect the performance of the principal position of credit controller;

o. **Risk controller**

1) Its board of directors has appointed a risk controller (hereinafter referred to as "**the risk controller**").

The risk controller shall have an academic degree in one of the following professions: accounting, business administration or economics, or shall have a license to engage in accountancy, or investment consultancy, or investment marketing, or portfolio management, and shall have the qualifications, know-how and experience befitting the position and responsibilities of risk controller.

2) The risk controller shall not hold any other position in the NBCM, save as provided below:

a) the risk controller may also serve as the NBCM's credit controller;

b) the risk controller may also serve as the NBCM's compliance officer, on fulfillment of the following conditions:

(1) the risk controller is the head of a division consisting of at least three additional employees (hereinafter referred to as "**the control division**");

(2) the control division shall be responsible for risk control in the NBCM and for compliance control in the NBCM;

(3) the control division's employees shall not hold any other position in the NBCM, save for compliance control, risk control and credit control;

(4) all the control division's employees shall meet the qualification conditions required of a risk controller and of a compliance officer.

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- 3) The risk controller shall be directly subordinate to the NBCM's CEO;

p. **Compliance officer**

- 1) Its board of directors has appointed a compliance officer (hereinafter referred to as "**the compliance officer**").

The compliance officer shall have an academic degree in one of the following professions: accounting, law, business administration or economics, or shall have a license to engage in accountancy, or investment consultancy, or portfolio management, and shall have the qualifications, know-how and experience befitting the position and responsibilities of compliance officer.

- 2) The compliance officer shall not hold any other position in the NBCM that might result in a conflict of interests with the position of compliance officer, or that might affect the performance of the position of compliance officer.
- 3) The compliance officer may also serve as the risk controller, on fulfillment of the conditions laid down in sub-paragraph 5.o.
- 4) The compliance officer shall not serve as the NBCM's internal auditor.
- 5) The compliance officer shall be directly subordinate to the NBCM's CEO.
- 6) The NBCM's compliance officer may be the compliance officer of a company that is the controlling shareholder of the NBCM, directly or indirectly;

q. **Information technology (IT) manager**

Its board of directors has appointed an IT manager, with suitable experience and professional training.

The IT manager shall be directly subordinate to the NBCM's CEO.

The IT manager shall be responsible for the NBCM's IT activity, and **inter alia** for performance of the acts detailed in the Regulations.

Without derogating from the aforesaid, the IT manager may be someone who also serves as the IT manager of a company that is the NBCM's controlling shareholder and/or of subsidiary of the NBCM and/or of a subsidiary of the NBCM's parent company.

TASE's CEO, or someone authorised by him, may exempt a foreign NBCM from compliance with the provisions of this paragraph, where the foreign NBCM has received an exemption from compliance with the provisions of the Rules regarding "information technology management in an NBCM".

- r. The company shall notify the Stock Exchange in writing of the appointment and retirement of the credit controller, risk controller, compliance officer and IT manager, within one day of the appointment or retirement. Notice of the retirement of the credit controller, risk controller, compliance officer and IT manager, as aforesaid, shall detail, to the best of the company's knowledge, one of the following:
- 1) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention;
  - 2) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances.

6. The Stock Exchange membership qualification conditions for a company that is not a banking corporation or a listed company and that is not a remote member are as follows:

- a. the qualification conditions under paragraphs 5.c. to r.;
- b.
  - 1) its interested parties and senior managers are of good repute, have not been convicted of an offence involving moral turpitude, unless the period of prescription under the Crime Register and Rehabilitation of Offenders Law, 5741-1981 has elapsed, and have not been legally declared undischarged bankrupts;
  - 2) its interested parties and senior managers have not been interested parties in a corporation that had been wound up without paying its debts;

However, the Board of Directors may exempt a company from compliance with this condition, if in its opinion the fact that a shareholder and/or senior manager of the company was an interested party in a corporation that had been wound up without paying its debts does not affect the company's capacity to be a Stock Exchange member.

- c. it has given written notice to the Stock Exchange of the identity of the true direct or indirect holders of its shares, provided that if a shareholder is a listed company the notice shall only relate to the listed company's interested parties, and it has undertaken to give notice of any change in the holdings of its shares;
- d. no share transfer or grant of other rights in its shares which are held by an interested party, or share transfer or grant of other rights in its shares which makes someone an interested party in it, or share allotment which involves a change in the shareholding of an interested party therein shall be, directly or indirectly, made without the Board of Directors' approval, although:
  - 1) **new holding of its shares**  
a holding of up to 3% of its shares does not require the Board of Directors' approval.



however, a holding as aforesaid requires a report to the Stock Exchange, within one day of the holding;

2) **a change in the holding of an existing shareholder**

- a) a change in shareholding within its controlling shareholder, which is a listed company that is not a banking corporation, including a change in shareholding within a controlling shareholder thereof as stated above that derives from an allotment of options to employees - does not require the Board of Directors' approval, unless it is a transfer of control within its controlling shareholder, which does require the Board of Directors' approval, which may be made subject to all or any of the conditions applicable under this chapter;
- b) a change in shareholding within an interested party that is not its controlling shareholder, which is a listed company other than a banking corporation, does not require the Board of Directors' approval;
- c) a change in shareholding within its interested party or controlling shareholder, which is a banking corporation or insurer, does not require the Board of Directors' approval;
- d) a change in shareholding of an interested party therein, in consequence of which he ceases to be an interested party, does not require the Board of Director's approval.

however, a change in holding as aforesaid requires a report to the Stock Exchange, within one day of the change.

- e) a change in shareholding of a shareholder therein, which does not make the shareholder an interested party therein, or which does not result in a change of control therein, does not require the Board of Director's approval.

however, a change in holding as aforesaid requires a report to the Stock Exchange, 30 days prior to the change.

the Stock Exchange's CEO, or someone authorized by the CEO, may instruct the company that the change in holding as aforesaid requires the Board of Director's approval, which may be made subject to all or any of the conditions applicable under this chapter.

if the Stock Exchange's CEO, or someone authorized by the CEO, does not instruct the company that the change in holding as aforesaid requires the Board of Director's approval, the company may make the said change, 30 days after the date of the report;

3) **allotment of options to employees**

- a) an allotment of options to employees, which on full exercise will constitute less than 5% of the company's issued capital, directly or indirectly, does not require the Board of Director's approval.

however, an allotment of options as aforesaid requires a report to the Stock Exchange, within one day of the allotment;

- b) an allotment of options to employees, which on full exercise will constitute 5% or more of the company's issued capital, directly or indirectly, but will not result in a holding of 3% or more of any employee, does not require the Board of Director's approval.

however, an allotment of options as aforesaid requires a report to the Stock Exchange, 30 days prior to the allotment.

the Stock Exchange's CEO, or someone authorized by the CEO, may instruct the company that the allotment of options as aforesaid requires the Board of Director's approval, which might be made subject to all or any of the conditions applicable under this chapter.

if the Stock Exchange's CEO, or someone authorized by the CEO, does not instruct the company that the allotment of options as aforesaid requires the Board of Director's approval, the company may make the said allotment, 30 days after the date of the report;

- e. 1) its board of directors shall consist of at least three directors, at least one of whom is an external director.
- 2) the term of office of an external director on the board of directors shall be as prescribed in the Regulations;
- f. 1) its board of directors shall elect one of its members to serve as the board of directors' chair.
- 2) the company's CEO shall not serve as chair of the board of directors.
- 3) the board of directors' chair shall not be vested with powers of the CEO;
- g. it has undertaken to submit to the Stock Exchange the reasoned written resignation of its external director within seven days of receiving it and at the request of the Stock Exchange to furnish further details with regard to the circumstances of such a director's resignation;
- h. 1) its board of directors shall appoint an audit committee from amongst the directors and that at least one external director shall sit on the audit committee.

- 2) the board of directors' chair, the company's controlling shareholders or their relatives, and any director engaged by the company, or providing services to the company on a regular basis, shall not be members of the audit committee.
  - 3) the company shall not appoint anyone who has served therein as an external director as an officer therein, shall not engage this person as an employee and shall not accept professional services for consideration from the external director, directly or indirectly, including through a corporation under its control, until two years have elapsed from the termination of the external director's office as external director in the company;
- i. it has appointed an internal auditor in accordance with section 146(a) of the Companies Law, who will be governed by the provisions relating to the internal auditor of a public company, as prescribed in Part Four, Chapter Four of the Companies Law, mutatis mutandis. The Regulations may prescribe further provisions in connection with the internal auditor's work;
  - j. it has undertaken to give written notice to the Stock Exchange of any change in the audit committee's composition and written notice of the appointment and retirement of an internal auditor, within one day of the date of the change, appointment or retirement as aforesaid. Notice of the retirement of an audit committee member or of the retirement of an internal auditor as aforesaid, shall specify, to the best of the company's knowledge, one of the following two alternatives:
    - 1) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention;
    - 2) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances;
  - k. it has undertaken to give the Stock Exchange written notice of the auditor's appointment and retirement, within one day of the date of the change, appointment or retirement as aforesaid.

it has undertaken that its audit committee shall hold a discussion regarding the possibility of replacing the auditor, at such intervals as prescribed in the Regulations.

it has undertaken that the auditor's term of office shall not exceed the term prescribed in the Regulations.

notice of the auditor's retirement as aforesaid shall specify, to the best of the company's knowledge, one of the following two alternatives:

- 1) that the retirement is in not in circumstances that must be brought to the Stock Exchange's knowledge;
- 2) that the retirement is in circumstances that must be brought to the Stock Exchange's knowledge, giving details of the circumstances.

**6A. Nostro NBCM**

- a. The qualification conditions for stock exchange membership for a nostro NBCM are as follows:

1) **"Good repute"**

For a nostro NBCM which is not a registered company - the qualification conditions prescribed in paragraph 6.b. above.

For a nostro NBCM which is a registered company - the qualification conditions prescribed in paragraph 5.a. above;

2) **Ownership**

For a nostro NBCM which is not a registered company - the qualification conditions prescribed in paragraphs 6.c. and 6.d. above.

For a nostro NBCM which is a registered company - the qualification conditions prescribed in paragraph 5.b. above;

- 3) The CEO and nostro activity manager have capital market know-how and training. At least one of the senior managers has at least five years' experience on the capital market.

4) **The board of directors**

a) The nostro NBCM's board of directors shall be as provided in the Companies Law with regard to the board of directors of a private company which is not a bond company.

b) At least one director shall be an Israeli resident.

c) At least one director shall have capital market know-how;

- 5) Cancelled.

6) **Equity**

It shall, at all times, have equity as provided in paragraph 5.g. above, or in the alternative initial equity in a sum of NIS 56.1 million;

- 7) Cancelled.

8) **Mechanisms, means and information systems**

It has mechanisms, means and information systems within the meaning thereof in paragraph 24M. below, as well as professional personnel with suitable qualifications, and suitable powers, enabling its proper activity on the Stock Exchange and performance of its obligations to the Stock Exchange, the Stock Exchange Clearing House, the Maof Clearing House and the Stock Exchange members;

9) **Risk controller, compliance officer and information technology manager**

It has appointed a risk controller, compliance officer and information technology manager, as provided in paragraphs 5.o. to 5.q. above, respectively;

10) It has undertaken to give the Stock Exchange written notice of the appointment and retirement of its senior managers, including the manager of the nostro activity, and of the risk controller, compliance officer and IT manager, within one day of the appointment or retirement.

Notice of retirement of its senior managers, risk controller, compliance officer and IT manager, as aforesaid, shall detail, to the best of the member's knowledge, one of the following:

- a) that the retirement does not involve circumstances that must be brought to the Stock Exchange's attention;
- b) that the retirement involves circumstances that must be brought to the Stock Exchange's attention, details being given of the said circumstances;

11) **Internal auditor**

It has appointed an internal auditor, as provided in paragraph 6.i. above.

12) It has undertaken to give written notice of the appointment and retirement of the internal auditor, as provided in paragraph 6.j. above;

13) **The auditor**

The qualification conditions are as provided in paragraph 6.k. above.

- b. A nostro NBCM shall not be a member of the Stock Exchange Clearing House and shall not be a member of the Maof Clearing House.

A nostro NBCM shall have an agreement for the clearing of securities with a member of the Stock Exchange Clearing House.

A nostro NBCM which operates on the derivatives market on the Stock Exchange shall have an agreement for the clearing of derivatives with a member of the Maof Clearing House.

- c. a nostro NBCM will be governed by the provisions of the Stock Exchange Rules and the Regulations pursuant thereto governing an NBCM, **mutatis mutandis**, subject to the qualifications prescribed in the Regulations. A nostro NBCM will not be governed by the provisions relating to clients of an NBCM.

#### 6B. Remote member

- a. The qualification conditions for stock exchange membership for a remote member are as follows:
- 1) it has been a stock exchange member for at least three years of at least one of the stock exchanges detailed in the Regulations;
  - 2) it is supervised by the authority competent to supervise activity in securities in the country in which it was incorporated and by the authorities competent to supervise activity in securities in other countries in which it operates as a stock exchange member and from which it is applying to operate on the Stock Exchange (each of these authorities is hereinafter referred to as "**the competent authority**");
  - 3) the competent authority in the country in which it was incorporated and the competent authority in at least one of the countries in which it has operated as a stock exchange member, as set forth in sub-paragraph 1) above, has a cooperation agreement with the Israel Securities Authority.

In such regard, if the competent authority as aforesaid is a signatory to the IOSCO MMOU (International Organisation of Securities Commissions Multilateral Memorandum of Understanding), it shall be deemed to have a cooperation agreement with the Israel Securities Authority.

Notwithstanding the aforesaid, if the competent authority does not have a cooperation agreement with the Israel Securities Authority, as aforesaid, the provisions of this sub-paragraph shall be deemed fulfilled if the Israel Securities Authority notifies the Stock Exchange that so far as it is concerned, there is no impediment to its admission to the Stock Exchange as a remote member;

- 4) it operates on the Stock Exchange only from those countries in which the competent authority has a cooperation agreement with the Israel Securities Authority, as set forth in sub-paragraph 3) above, or from countries in respect of which the Securities Authority has given notice, as set forth in sub-paragraph 3) above, that so far as it is concerned, there is no impediment to its admission to the Stock Exchange as a remote member operating from them;
- 5) a) it has received written confirmation from the competent authority in the country in which it was incorporated and from the competent authorities in the countries from which it intends operating on the Stock Exchange that it is under their supervision.

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- b) a remote member seeking to operate on the Stock Exchange from a country that did not appear in its application to the Stock Exchange at the time it applied for admission as a remote member, shall send the Stock Exchange confirmation as set forth in sub-paragraph a) above, from the competent authority in such country, before it commences operating from it on the Stock Exchange.
  - c) it has declared that there is no impediment to its being a remote member of the Stock Exchange;
- 6) it has, at all times, equity in an amount of not less than that prescribed in the Regulations.

For the purposes of this paragraph, "**equity**" - in accordance with accepted accounting rules and in accordance with the last financial statements of the remote member;

- 7) it has insured itself, as required by the competent authority in the country in which it was incorporated and by the competent authorities in the countries from which it intends acting on the Stock Exchange, and has declared that the insurance as aforesaid also includes its activity on the Stock Exchange.

The above provisions of sub-paragraph 7) above, will not apply to a remote member which is acting only for itself.

- 8) it has obtained a legal opinion as to whether it should be registered in Israel as a foreign company, and shall act pursuant thereto.

If pursuant to the opinion, the remote member need not be registered as a foreign company, all its activity shall be carried out from abroad, including contracting with the clients for whom it operates on the Stock Exchange;

- 9) it has appointed a senior manager who shall be responsible on its behalf for its activity on the Stock Exchange and shall notify the Stock Exchange, in writing, of the appointment or retirement of the senior manager as aforesaid, within one day of the appointment or retirement.

Notice of retirement as aforesaid shall specify details of the circumstances of the retirement and shall include, to the best of the remote member's knowledge, one of the following:

- a) that the retirement does not involve circumstances that must be brought to the Stock Exchange's knowledge;
- b) that the retirement involves circumstances that must be brought to the Stock Exchange's knowledge, detailing the circumstances of the retirement.

The report on an appointment as aforesaid shall include the senior manager's contact details.

A report shall also be given to the Stock exchange in the event of any change in the senior manager's contact details, within one day of the change;

- 10) it has appointed a person in Israel who is authorised to accept court documents and notices for it, and has undertaken to notify the Stock Exchange, in writing, of any change in the details relating to the said authorised representative, within one day of the change, and of any change in the person's contact details, as set forth below, within one day of the change.

The report on the appointment of an authorised representative as aforesaid shall include the representative's contact details (telephone, address, e-mail, facsimile and the like);

- 11) it has the mechanism, means, computer systems and professional personnel enabling its proper activity on the Stock Exchange and the performance of its duties to its clients, the Stock Exchange and the Stock Exchange members;
- 12) the Board of Directors may, at its discretion, determine qualification conditions in addition to those detailed above. In determining the additional qualification conditions, the Board of Directors may take the following matters into account:
- a) the state laws governing the remote member in its central place of activity;
  - b) the state laws applicable in the country in which the remote member was incorporated;
  - c) the remote member's experience on the capital market;
  - d) the scope of the remote member's activity;
  - e) the remote member's reputation.
- b. A remote member shall not solicit Israeli clients to act through it on the Stock Exchange.
- b1. A remote member shall undertake to furnish the Israel Securities Authority with any information required by it in connection with its activity on the Stock Exchange, including various reports.
- c. A remote member shall not be a member of the Stock Exchange Clearing House and shall not be a member of the Maof Clearing House.

A remote member shall have an agreement for the clearing of securities with a member of the Stock Exchange Clearing House.

A remote member operating on the derivatives market on the Stock Exchange shall have an agreement for the clearing of derivatives with a member of the Maof Clearing House.



- d. 1) Without derogating from the provisions of Chapter VI, a remote member shall allow the Stock Exchange to supervise its activity on the Stock Exchange and its compliance with the provisions of the Stock Exchange Rules, and shall assist it insofar as necessary.

Without derogating from the generality of the aforesaid, the supervision may take place through correspondence and the furnishing of the necessary information to the Stock Exchange by the remote member, or through audits carried out by the Stock Exchange at the remote member's offices.

- 2) A remote member shall include, in its contracts with its clients who are active on the Stock Exchange, a provision allowing it to give the Stock Exchange and the Israel Securities Authority all information regarding their activity on the Stock Exchange.
- e. A remote member shall report to the Stock Exchange on the termination or suspension of its membership of another stock exchange of which it is a member, giving the details and circumstances of the membership's termination or suspension, immediately upon the membership's termination or suspension as aforesaid.
- f. Sole jurisdiction in connection with the activity of a remote member on the Stock Exchange, in legal proceedings to which the Stock Exchange is a party and in legal proceedings to which an Israeli-resident client who has received services from the member in Israel is a party, shall rest with the competent court in Tel Aviv, and the law governing these proceedings shall be the Israeli law.
- g. An applicant for admission as a remote member, and a remote member shall be governed by the provisions of the Stock Exchange Rules and Regulations governing a Stock Exchange member that is a banking corporation which is a registered company, **mutatis mutandis**, and subject to the qualifications laid down in the Regulations.

#### 6C. Custodial member

- a. A custodial member may not engage in trade on the Stock Exchange as a member.
- b. Except for the provisions of this paragraph 6C., a custodial member will not be governed by the provisions of this Part of the Stock Exchange Rules and the Regulations pursuant thereto.
- c. On termination of the member's membership as a Clearing House custodial member, his Stock Exchange membership will terminate immediately, and on the same date.

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7.
  - a. The party applying to be admitted as a member (hereinafter referred to as "**the applicant**") shall submit a membership application to the Stock Exchange (hereinafter referred to as "**the application**").
  - b. The particulars of the application and the documents to accompany it shall be as prescribed in the Regulations.
  - c. Should it be found, on dealing with the application, that it omits particulars necessary to decide it, the Board of Directors may require that those particulars be given to it at such time as it prescribes.
  - d. Should the particulars required as provided in sub-paragraph c. not be given at the time prescribed in the requirement, the handling of the application shall be suspended until the deficiency is completed and on completion the application shall be deemed a new one submitted at the time of completion.
  - e. The handling of the application or of an application for approval of a change in the member's ownership insofar as required under this chapter is conditional upon the payment of such handling fee as prescribed in the Regulations.
8.
  - a. On receiving the application, the Stock Exchange shall give notice to its members of its submission in the same way as it gives other notices to its members. A member which knows of details that might assist the Stock Exchange consider whether the applicant is fit to be admitted as a member shall bring them to its knowledge.

The foregoing shall also apply in the case of transfer of control in an NBCM.

Notice of the application's submission shall also be published by the Stock Exchange in two daily newspapers of wide circulation, that are published in Israel in Hebrew.

- b. The application shall be considered by the Board of Directors, which shall decide it.
- c. The Board of Directors shall consider the application within not more than 120 days of receiving it, provided that it includes all the particulars and documents under this chapter.
- d. The Board of Directors may, in special circumstances, not approve the application or subject its approval to further conditions even if all the requirements under this chapter have been fulfilled, provided that such a decision is made by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the Board of Directors' meeting, after the applicant has been given a reasonable opportunity to state its case in writing to the Board of Directors.
- e. Approval for admittance as a member shall expire if the conditions prescribed therein have not been fulfilled within the time prescribed therein, which shall not exceed one year.

9.
  - a. Upon the application approval by the Board of Directors, and completion of the applicant's arrangements and its compliance with all the requirements prescribed in accordance with the Rules and all the terms and conditions prescribed by the Board of Directors on approving the application, it shall become a member.
  - b. The member shall pay the Stock Exchange, within three days of beginning its activity as a member, the membership fee prescribed in the Regulations.
10. Cancelled.
11. An applicant that has not been admitted as a member in accordance with a resolution of the Board of Directors may file a new application for admittance to membership of the Stock Exchange if the circumstances by reason of which the Board of Directors did not approve its application for admittance as a member of the Stock Exchange in the past have changed.

**Chapter III –**  
**The Spheres of Activity Permitted to a Stock Exchange Member**

12. a. **An NBCM's spheres of activity**

An NBCM shall engage in the business of securities for others, and/or for itself, and it may engage in the spheres of activity detailed below, itself or through subsidiaries, which were incorporated in Israel and operate in Israel, subject to the provisions of any law and the conditions prescribed in this chapter:

- 1) underwriting of securities' issues;
- 2) management of mutual funds;
- 3) management of provident funds;
- 4) granting of credit to its clients for the purpose of financing activity in monetary assets, and activity in securities and in derivatives that are not traded.

An NBCM may not grant credit as aforesaid through a subsidiary;

- 5) securities portfolio management, investment consultancy, investment marketing and the execution of transactions for others in securities, including in derivatives that are not traded, and in foreign currency;
- 6) provision of custody services for monetary assets of a client, including securities that are not traded and derivatives that are not traded;
- 7) provision of counseling in respect of deposits in a provident fund as defined in section 47(a)(2) of the Income Tax Ordinance [New Version];
- 8) provision of counseling in respect of the activities specified in paragraphs 1) to 4) above;
- 9) provision of counseling in respect of investment in savings plans;
- 10) execution of transactions for itself in monetary assets, and in derivatives that are not traded;
- 11) investment for itself, including through subsidiaries, in securities that are not traded, provided that its total investment in any corporation shall not exceed 25% of the capital and voting in the corporation;

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- 12) investment in a company that engages exclusively in issuing securities and in purchasing, selling, converting or redeeming monetary assets (hereinafter referred to as "**the issuing company**") provided that in the event the value of the assets purchased with the proceeds of the issuance are not adequate to cover all the payments due to the holders of the securities, none of the holders of the issuing company's securities shall have a right of claim or a right of recourse to the NBCM and/or to its shareholders;
  - 13) provision of account information service pursuant to the Account Information Service Law, 5782-2021.
- b. Engagement in spheres of activity other than those specified in sub-paragraph a. above and any investment deviating from that permitted pursuant to sub-paragraph a. above, require the approval of the Board of Directors, which shall take into account the NBCM's permitted spheres of activity.
13. Cancelled.
  14. Cancelled.
  15. **Credit and guarantees provided by an NBCM in favor of its client**
    - a. An NBCM may give credit and/or guarantees to its client, provided that on the date of giving the credit and/or guarantees, and at any time thereafter, the NBCM complies with the equity, initial equity and net unencumbered liquid assets requirements as provided in the Rules.
    - b. The Board of Directors may prescribe terms and conditions in the Regulations regarding the granting of credit and guarantees by an NBCM, including regulations regarding collateral, the restriction of credit to one client and to a group of borrowers, within the meaning thereof in the Regulations, and the maximum value for collateral purposes of the monetary assets, within the meaning thereof in the Regulations.
    - c.
      - 1) An NBCM shall not give a guarantee other than for its client, such being only against the charge of such client's securities portfolio that is held with it or against an unconditional autonomous bank guarantee given in favor of the NBCM at such client's request.
      - 2) An NBCM shall not grant credit other than to its client, and only to finance the client's activity in monetary assets and/or in securities and in derivatives that are not traded, such being only against the charge of such client's securities portfolio that is held with it or against an unconditional autonomous bank guarantee given in favor of the NBCM at such client's request.

Notwithstanding the aforesaid, an NBCM may give its employees loans, in the scope of employer-employee relations, even if they are not its clients and even if the loan is not for the purchase of securities.

- 3) Notwithstanding the provisions of sub-paragraphs 1) and 2) above, an NBCM may grant credit to its client or give a guarantee in favor of its client (hereinafter referred to as "**the borrowing client**"), against a charge of the securities portfolio of another of its clients (hereinafter referred to as "**the other client**"), provided that all the following conditions are fulfilled:
- a) the other client shall guarantee the NBCM in respect of the credit to the borrowing client and/or the guarantee given by the NBCM in favor of the borrowing client, and to secure this obligation the other client shall charge its securities portfolio with the NBCM in favor of the NBCM;
  - b) the guarantee agreement and the charge agreement between the NBCM and the other client shall be drawn up as separate documents and not as part of the account opening agreements signed by the client. The agreements shall expressly note the name and account number of the borrowing client to secure the debt of which the other client is giving the guarantee and the charge to the NBCM;
  - c) the total credit and/or guarantees that the NBCM may give, the collateral in respect of which is the guarantee and charge of the other client, shall not exceed the percentage prescribed in the Regulations of the NBCM's equity;
  - d) credit and/or guarantees as aforesaid shall be governed by all the provisions of the Rules regarding granting of credit.
- d. A client's liabilities to the NBCM by reason of the client's activity in derivatives and/or Repo and/or foreign currency and/or by reason of short sales of the client shall be deemed credit given by the NBCM to the client, for all intents and purposes.
- e. The NBCM's board of directors shall determine policies and procedures regarding the scope of the credit and guarantees that the NBCM shall give its clients, including with regard to the monetary credit, the other credit and the scope and type of the collateral that the NBCM shall obtain from its clients against the grant of the credit and/or guarantees as aforesaid, and that, in a reasonable manner, having regard, inter alia, to the following factors:
- 1) the type of monetary assets of the client that were given to the NBCM as collateral;
  - 2) the size of the client's securities portfolio;
  - 3) the spread of the monetary assets in the client's securities portfolio;
  - 4) the type of transaction for the execution of which the credit and guarantees are given;
  - 5) the equity, initial equity and net unencumbered liquid assets that the NBCM has, which exceeds the requirements of the NBCM pursuant to the Rules;

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- 6) the client's reputation and the NBCM's experience with the client in relation to its conduct.
- f. The NBCM's board of directors shall determine policies and procedures regarding the manner of charging securities portfolios, to secure credit and/or guarantees provided by the NBCM in favor of its clients, including provisions guaranteeing the effectiveness of the charges vis-à-vis other creditors of the clients who have received credit and/or guarantees from the NBCM.
- g. For the purpose of examining the NBCM's compliance with the equity, initial equity and net unencumbered liquid assets requirements, the amount of the other credit, the amount of the monetary credit by reason of a loan in foreign currency and the maximum value for collateral purposes of monetary assets shall be computed in accordance with the provisions of the Rules, even if the NBCM's board of directors has determined that its client must provide collateral against its activity in a higher amount, or if the NBCM has determined that the maximum value for collateral purposes of monetary assets charged by the client in favor of the NBCM to secure credit and/or guarantees shall be lower than as provided in the Regulations.

**Chapter IV –**  
**The Stock Exchange Members' Duties**  
**to the Stock Exchange and its Members**

16. a. A member shall continue to fulfill the Stock Exchange membership qualification conditions even after it has been admitted as a member, unless different conditions regarding admitted members are expressly prescribed in these Rules or in the Regulations pursuant hereto. A member shall faithfully perform the other provisions of these Rules and the Regulations pursuant hereto and the resolutions of the Stock Exchange Board of Directors which apply to Stock Exchange members.
- b. A member shall bear liability for the provisions of these Rules, the Regulations pursuant hereto and the resolutions of the Stock Exchange Board of Directors being performed by its senior managers and its employees.
- c. The annual work plan of the member's internal auditor shall include examinations relating to the member's compliance with the provisions of these Rules, the Regulations pursuant hereto and the resolutions of the Stock Exchange Board of Directors.
- d. A member shall report to the Stock Exchange everything it knows about breaches of the provisions of these Rules, the Regulations pursuant hereto and resolutions of the Stock Exchange Board of Directors by its senior managers and its employees, and the steps which it has taken further thereto.
17. A member shall bear liability for its senior managers and its employees not, directly or indirectly, engaging in securities business on behalf of themselves or others in such a way as might damage the member's clients or the member's monetary standing.
- 17A. a. An NBCM which is a member of the Stock Exchange Clearing House shall hold, in its account at the Stock Exchange Clearing House, its monetary assets that are cleared by the Stock Exchange Clearing House, which serve it for the purpose of its compliance with the condition laid down in paragraph 5.h. of the Rules, regarding net unencumbered liquid assets.
- Notwithstanding the aforesaid, an NBCM need not hold, in its account at the Stock Exchange Clearing House, monetary assets as aforesaid that are assets recognized as unencumbered, which are not charged in favor of the Stock Exchange Clearing House.
- b. An NBCM which is a member of the Stock Exchange Clearing House and of the Maof Clearing House shall hold, in its accounts at the Stock Exchange Clearing House and the Maof Clearing House, its monetary assets that are cleared by the Stock Exchange Clearing House or the Maof Clearing House, which serve it for the purpose of its compliance with the condition laid down in paragraph 5.h. of the Rules, regarding net unencumbered liquid assets.

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Notwithstanding the aforesaid, an NBCM need not hold, in its account at the Stock Exchange Clearing House and in its account at the Maof Clearing House, monetary assets as aforesaid that are assets recognized as unencumbered, which are not charged in favor of the Stock Exchange Clearing House and/or the Maof Clearing House.

- 17B. The NBCM's board of directors shall determine the investment policy in respect of the NBCM's own account, whether the transactions are executed by it or through its subsidiary, including the investment channels, the amount of the investments, the spread of the investments and the manner of supervising the NBCM's compliance with the prescribed provisions.

**\*18. Commissions that a Stock Exchange member collects from its clients**

A member, except for a remote member, shall report to the Stock Exchange on the commissions that it collects from its clients, as provided in the Regulations.

19. An NBCM shall, for such minimum time as prescribed in the Regulations, keep documents and other records relating to its activity, whether the documents or records were drawn by it or others; the Regulations may prescribe different periods of time for different types of documents or records and the method of keeping the documents or records.

20. a. An NBCM shall file financial statements and other certificates and reports with the Stock Exchange in such manner and at such time as prescribed in the Regulations.
- b. The Board of Directors may in special cases require of an NBCM financial statements of shareholders who hold 25% or more of the member's share capital and any other information about them; such a decision shall be made by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the Board of Directors' meeting.
- c. The financial statements of an NBCM shall be made available for inspection by its clients on request at the member's offices.

- 20A. A remote member shall file with Stock Exchange financial statements and other certificates and reports as determined in the Regulations, and at the times determined in the Regulations.

The said documents shall be submitted to the Stock Exchange in Hebrew or English.

If the original documents are written in a language that is not Hebrew or English, and the documents sent to the Stock Exchange are a translation of original documents written in another language, the applicant shall send a notary's certificate confirming that the documents' translation is true to the original.

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\* This paragraph shall come into force immediately after the entry into force of paragraph 45p. of the Securities Law (Amendment No. 63), 5737-2017.

21. The Board of Directors may require an NBCM to take one or more of the following steps:
- a. to refrain from distributing all or some profits;  
 for the purpose hereof: "**distributing profits**"- includes payments of any type - including remuneration and any other payment to the controlling shareholders, management fees to the managers and directors and the repayment of loans to owners, managers and directors;
  - b. to increase its equity in excess of the equity required pursuant to the Rules, including the initial equity, and to determine the means of investing the increased capital;
  - c. to require that its controlling shareholders or directors give a personal guarantee or due guarantee of a third party to secure the NBCM's existing and future obligations;
  - d. to take steps to reduce the amount of its operating risk and/or the amount of its monetary risk, within the meaning thereof in the Regulations.

The Board of Directors shall act as aforesaid, where such is necessary, in its opinion, for the NBCM's monetary stability, by a resolution passed by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the Board of Directors' meeting, and after giving the NBCM a due opportunity to state its case in writing to the Board of Directors.

- 21A. An NBCM shall not distribute all or any of its profits and shall not give credit and/or guarantees, if as a result thereof there is an apprehension that it will not fulfill the conditions pursuant to the Stock Exchange Rules.
22. A member shall not pass a voluntary winding up resolution without the Board of Directors' approval.
23. A member shall act fairly and honestly towards the Stock Exchange and other members; rules of conduct with regard to the relationship between members may be prescribed in the Regulations.
24. a. Differences or disputes between one member and another member with regard to their activity on the Stock Exchange shall be settled between them. If within 30 days they have not reached an understanding, then within a further 30 days they shall appoint a sole arbitrator. Should an arbitrator not be appointed as aforesaid, they shall give notice thereof to the Stock Exchange and the arbitrator shall be appointed by the Chair of the Board of Directors within 30 days of the date of such notice.
- b. The arbitration procedure shall be as provided in the Schedule to the Arbitration Law, 5728-1968.

24A. Where a member approaches the CEO of the Stock Exchange informing the CEO that a technical malfunction or technical error has occurred at the member, which caused its client or the member itself damage in a transaction that was executed, the CEO of the Stock Exchange or anyone authorised by the CEO may give the member information on the identity of the members constituting the other party to such a transaction.

Where a transaction is cancelled, the CEO of the Stock Exchange or anyone authorised by the CEO may give the members constituting parties to the cancelled transaction information on the identity of the member which was the other party to such transaction.

24B. A member shall pay the Stock Exchange an annual fee as prescribed in the Regulations.

24C. In paragraphs 24D to 24J in this chapter, the following expressions shall have the following meanings:

<b>Terms</b>	<b>Definitions</b>
<b>"central system"</b>	- a central computer system, which is routinely updated, including during the course of trade on the Stock Exchange, which includes all the transactions executed through the NBCM, such that every transaction is reflected in the system, in real time, for the NBCM's clients and for the nostro.
<b>"the credit ceiling"</b>	- the maximum credit approved by the NBCM for the client's account. The credit ceiling as aforesaid shall not deviate from the credit restrictions prescribed in the Regulations.
<b>"credit given to a client"</b>	- the higher between amount "a" and amount "b" below:  amount "a" - the monetary credit given by an NBCM to a client, plus the amount of the guarantees given by the NBCM in favor of the client and plus the amount of the client's liabilities to the NBCM by reason of the client's activity in derivatives, and/or Repo, and/or by reason of short sales of the client, in accordance with the computation determined by the NBCM's board of directors.

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**Terms****Definitions**

amount "b" - the monetary credit given by an NBCM to a client, plus the amount of the guarantees given by the NBCM in favor of the client and plus the amount of the client's liabilities to the NBCM by reason of the client's activity in derivatives, and/or Repo, and/or by reason of short sales of the client, which shall be computed in accordance with the provisions of the Regulations.

**"allocation account"**

- a collective account, through which transactions in securities for other accounts are managed on a collective basis.

24D. An NBCM's board of directors shall approve mechanisms for the supervision and control of the grant of credit by the NBCM, the collateral received by the NBCM and short sales.

24E. An NBCM shall have a central system, which shall include, inter alia, the following:

- a. all the transactions and balances in monetary assets and in securities and in derivatives that are not traded, such being for each account separately;
- b. in respect of each account, details regarding the credit ceiling in the account at any time. For the purpose of computing the credit ceiling as aforesaid, execution orders given but not yet implemented shall also be taken into account, as though executed, if the execution thereof will reduce the credit ceiling;
- c. in respect of each account, details of the credit given to a client in the account at any time. For the purpose of computing the credit given to a client as aforesaid, execution orders given but not yet implemented shall also be taken into account, as though executed, if the execution thereof will increase the credit given to a client.

- 24F. a. The NBCM's central system shall possess automatic mechanisms that shall block in real time the giving of orders the execution of which would cause the credit given to a client in the account to deviate from the credit ceiling in the account, and they shall block in real time orders the execution of which would cause short sales other than in accordance with the Rules (hereinafter referred to as "**blocking mechanisms**").
- b. The NBCM's board of directors may approve that certain clients, who appear on a list approved by it, who do not operate on the derivatives market and who do not execute Repo transactions, may act without the blocking mechanisms being operated in respect of their accounts, provided that warning mechanisms shall be operated in respect of them as provided below.

The list of clients as aforesaid shall be approved by the NBCM's Board of Directors at such intervals as determined in the Regulations. An NBCM shall not allow a client to act in an account without blocking mechanisms without obtaining the prior approval of the NBCM's Board of Directors to do so.

The NBCM's board of directors may delegate this power to a committee of at least three of its members, provided that the external director is a member thereof (hereinafter referred to as "**the committee**").

- c. The grant of approval as aforesaid to act in an account without blocking mechanisms shall not derogate from the provision that the credit given to a client in the account may not deviate from the credit ceiling in the account and from the rules regarding short sales.
- d. The NBCM's central system shall include warning mechanisms that shall give a warning in real time of any transactions causing the credit given to a client in the account to exceed the credit ceiling in the account and of any short sale other than in accordance with the Rules, such being in any account of a client in which, with the approval of the NBCM's board of directors or with the approval of the committee, the blocking mechanisms were not operated (herein referred to as "**warning mechanisms**").
- e. The NBCM's board of directors shall approve, at such intervals as determined in the Regulations, the warning mechanisms and blocking mechanisms operated in the NBCM's central system.
- f. In cases in which, for reasons that cannot be foreseen and that are not in the NBCM's control, a client's account has not yet been credited with monetary assets to which the client is entitled, it will be possible to release the block on a transaction in the client's account, in a manner enabling the execution of the transaction in the client's account, provided that the conditions laid down in the Regulations have been fulfilled.

The release of the block as aforesaid is conditional upon the transaction not causing credit given to a client in the account to deviate from the credit ceiling in the account and not causing a deviation from the rules regarding short sales. The cases in which the block on transactions in a client's account is released shall be documented on the NBCM's computer.

#### **24G. Activity of a client in derivatives on a Stock Exchange in Israel that are transferred to a custodian**

- a. An NBCM which makes a transfer to a custodial trustee of positions in derivatives of a client, that are created through the NBCM, may obtain, from the client's custodians, prior written approval, as an alternative to collateral, to secure the client's liabilities deriving from the positions in derivatives created in the client's account with the NBCM.

The approval as aforesaid shall include the custodian's undertaking to obtain from the NBCM, by way of transfer to the custodial trustee positions in derivatives of such client, the client's liability to the NBCM in respect of which, together with the sum of money that the custodian is liable to pay in the framework of the transfer to the custodial trustee, in order to cover the monetary credit that the NBCM made available in favor of the client, for the purpose of creating the positions, shall not exceed the sum of money specified in the undertaking.

The aforesaid approval may serve as an alternative to collateral, up to the sum of money specified therein.

- b. The NBCM shall not allow a client to execute, and shall not execute for the client, transactions in derivatives the client's liability in respect of which will cause a deviation from the credit ceiling in the client's account with the NBCM.

For the purpose of computing the credit ceiling in the client's account as aforesaid, the amount specified in sub-paragraph a. above shall also be taken into account.

Blocking mechanisms shall be operated accordingly in the client's account.

- c. Where the custodian is also an NBCM, the maximum amount pursuant to sub-paragraph a. above shall be deemed a guarantee given by the custodian NBCM to its client, for all intents and purposes.

- 24H. a. The NBCM's central system shall be routinely updated, in real time, also with regard to transactions in monetary assets that are traded on overseas stock exchanges (hereinafter referred to as "**overseas transactions**"), including the amount of the client's liability to the NBCM by reason of the client's activity in derivatives and/or by reason of short sales of the client.

However, the Board of Directors may prescribe qualifications in the Regulations concerning the update of overseas transactions in real time in the central system, subject to the terms and conditions prescribed in the Regulations.

- b. Where an NBCM allows its clients to execute overseas transactions, directly through another broker who acts on overseas stock exchanges, telephonically, through a computer system or in any other way, such transactions are subject to the fulfillment of the terms and conditions prescribed in the Regulations.
- c. The provisions of this paragraph do not derogate from the provision that the credit given to a client in the client's account may not deviate from the credit ceiling in the client's account and from the rules regarding short sales.

- 24I. a. Where an NBCM permits the execution of transactions for its clients through an allocation account, the blocking mechanisms and warning mechanisms shall also be operated in respect of the allocation account.

- b. The provisions of this paragraph do not derogate from the provision that the credit given to a client in the client's account may not deviate from the credit ceiling in the client's account and that there shall be no deviations from the rules regarding short sales, such being in each and every account, even if in fact the transactions in respect of the account are executed through an allocation account as aforesaid.
  - c. An NBCM may permit the execution of transactions through an allocation account only for the entities specified in the Regulations.
- 24J.
- a. The credit controller shall ensure compliance with the provisions of the Rules regarding the granting of credit, including regarding the credit ceiling and regarding short sales, and with the directives of the NBCM's board of directors on these matters.
  - b. The credit controller shall routinely supervise, in real time, the transactions in accounts in which, with the approval of the NBCM's board of directors, blocking mechanisms are not operated and shall ensure that in such accounts, there is no deviation from the credit ceiling and no short sales other than as pursuant to the Rules.
  - c. The NBCM's board of directors shall approve a working procedure for the credit controller, as detailed in the Regulations.
  - d. Duties of the credit controller may be performed with the help of other employees of the NBCM, who shall be subordinate to the credit controller and who shall accept orders regarding collateral and credit control from the credit controller alone.
  - e. The credit controller shall give the NBCM's CEO, the Chair of the NBCM's board of directors and the NBCM's board of directors a written review of the credit, collateral and short sales control activity, as detailed in the Regulations.
  - f. The NBCM shall report to the Stock Exchange, at such times as specified in the Regulations, on the compliance with the provisions concerning collateral and credit control. A report as aforesaid shall include the details prescribed in the Regulations.

**24K. Management and control of risks**

- a. An NBCM shall have the mechanisms enabling it, at all times, to effectively manage the risks embodied in its activity, as provided in the Regulations.
- b. An NBCM shall have mechanisms for the supervision and control of risk management, as provided in the Regulations.
- c. The manner of managing and controlling the NBCM's risks shall be anchored in work procedures to be determined by the NBCM, as provided in the Regulations.
- d. The NBCM's risk controller shall be responsible for risk management supervision and control mechanisms, as provided in the Regulations.

- e. There shall be a clear division of responsibilities and separation of positions in the NBCM between the divisions carrying out the activity, the divisions supporting the activity, the divisions managing risks, the risk management control divisions and the internal audit set-up.
- f. The NBCM shall carry out a risk survey at such intervals as determined in the Regulations, through a professional entity with suitable qualifications. The risk survey shall identify, evaluate and quantify, insofar as possible, the risks embodied in the NBCM's activity and shall evaluate the manner in which the NBCM is managing and controlling the risks (hereinafter referred to as "**risk survey**"), as provided in the Regulations.

The risk survey shall be brought for discussion by the NBCM's board of directors, as provided in the Regulations.

- g. The NBCM shall draw up a paper describing the risks and the exposure embodied in its activity (hereinafter referred to as "**the exposure paper**"). The exposure paper shall be based on the risk survey. The exposure paper shall include detailed documentation of all risks and the exposure deriving therefrom, and of the risk management and control mechanisms operated by the NBCM, as provided in the Regulations.

The exposure paper shall be revised by the NBCM at intervals determined in the Regulations.

The exposure paper shall be brought for discussion by the NBCM's board of directors, as provided in the Regulations.

#### 24L. **Compliance control**

- a. The NBCM shall determine a compliance plan, as provided in the Regulations.

The compliance plan shall be discussed and approved by the NBCM's audit committee and by the NBCM's board of directors, as provided in the Regulations.

- b. The NBCM's compliance officer shall be responsible for the NBCM's compliance with all legal provisions governing the NBCM, including the provisions of the Stock Exchange Rules, and shall be responsible for the implementation of work procedures in the NBCM, as provided in the Regulations.

- c. The NBCM shall carry out a compliance survey at such intervals as determined in the Regulations, through a professional entity with suitable qualifications, with the object of ascertaining that the NBCM is capable of implementing and performing its duties pursuant to the law, including the provisions of the Stock Exchange Rules (hereinafter referred to as "**the compliance survey**"), as provided in the Regulations.

The compliance survey shall be brought for discussion by the NBCM's board of directors, as provided in the Regulations.



- d. The NBCM shall determine a work plan for the compliance officer, as provided in the Regulations.

The work plan shall be discussed and approved by the NBCM's audit committee and by the NBCM's board of directors, as provided in the Regulations.

- e. The compliance officer shall have access to information in the NBCM, as provided in the Regulations.
- f. The compliance officer shall not be removed from that position without the officer's consent, except as provided in the Regulations.

**Chapter IV-1**  
**The Stock Exchange Members' Duties to the Stock Exchange**  
**and its Members – Information Technology Management in an NBCM**

24M. In this Chapter -

<b>Terms</b>	<b>Definitions</b>
<b>"IT", "IT assets" or "information systems"</b>	- hardware, software, operating systems, communication means, multimedia means, and any other means at the NBCM's disposal and/or used by it to carry on its business activity, including information files, and including data recording, data processing, information storage, information transfer and information retrieval means;
<b>"account system"</b>	- all the books of account and documentation managed by the NBCM, including a general account system and a client account system;
<b>"general account system"</b>	- an account system through which all the NBCM's monetary and accounting activity is managed;
<b>"client account system"</b>	- an account system through which all the NBCM's activity for its clients, including nostro, is managed;
<b>"transactions"</b>	- the execution of transactions in monetary assets, including the purchase, sale, deposit and withdrawal of monetary assets, as well as any credit and/or debit in the NBCM's account system, and any cancellation or change of a transaction as aforesaid;
<b>"changes in the information systems"</b>	- changes in the NBCM's information systems, including changes in the operating systems, changes in software, changes in an existing information system, the addition of a new information system and its integration with the existing information systems, changes in databases, changes in hardware and the addition of new hardware components;

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**Terms****Definitions****"back-office"**

- units of the NBCM that engage in recording the transactions executed by it for the NBCM and for its clients, in recording and managing the information in the NBCM's databases regarding the NBCM and its clients, in processing the records and in retrieving information in the NBCM's possession, for the NBCM's requirements, for its clients' requirements, for the requirements of internal and external control entities and supervision entities and for other requirements;

**"vital business process"**

- transactions for the NBCM and its clients and the clearing of such transactions, the operation of control mechanisms and supervision mechanisms at the NBCM, the management of the NBCM's back-office, reports to clients, and any other business process the continuity of which the NBCM wishes to ensure in a case of malfunction;

**"case of malfunction"**

- an event by reason of which it is not possible to continue maintaining a vital business process in the ordinary way;

24N. a. An NBCM shall manage the IT in a manner ensuring that it will be able to manage its business activity properly, which is consistent with its goals and requirements, while complying with all the provisions of the Rules and the provisions of any law applicable to it.

**b. IT management policy**

- 1) An NBCM shall have an IT management policy covering all the aspects of its IT (hereinafter referred to as "**the IT policy**").

The IT policy shall cover, inter alia, the matters detailed in the Regulations.

- 2) The IT policy shall be updated at the intervals and in the manner prescribed in the Regulations.

- 3) An NBCM shall routinely evaluate the adaptation of its IT management policy to its current goals, and shall adapt the IT management policy to its current goals as aforesaid and that are required of it, in accordance with the provisions of the Rules and the provisions of any law applicable to it.

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- 4) The IT policy shall be discussed and approved by the NBCM's board of directors, as provided in the Regulations.

c. **Work plan**

- 1) An NBCM shall have a work plan that shall detail all the IT management acts that it intends to perform during the period to which the work plan relates, and a timetable for their performance (hereinafter referred to as "**the work plan**").

The work plan shall include, **inter alia**, the matters detailed in the Regulations.

- 2) The work plan shall be discussed and approved by the NBCM's board of directors, at the intervals and in the manner prescribed in the Regulations.
- 3) An NBCM shall routinely evaluate the adaptation of its work plan to its current goals, and shall adapt the work plan to the current goals as aforesaid and that are required of it, in accordance with the provisions of the Rules and the provisions of any law applicable to it.

d. **Account system**

An NBCM shall have an account system that shall manage all its monetary and accounting activity and all its activity for its clients.

The account system shall include a client account system and a general account system, and shall comply with all the provisions and conditions of the Rules and of any law.

The account system shall fulfill, *inter alia*, the conditions detailed in the Regulations.

e. **Information systems management processes, control mechanisms, supervision mechanisms and work procedures**

- 1)
  - a) An NBCM shall act to automate all the vital business processes.
  - b) Without derogating from the generality of the aforesaid, any transaction in monetary assets executed by the NBCM, including the grant of an instruction to execute a transaction as aforesaid, including those by the NBCM's employees and/or by its clients, shall only be executed through the information systems and shall be recorded immediately upon its execution in the information systems.
  - c) In exceptional cases, in which it is not possible to execute certain transactions through the information systems, the NBCM shall adopt special means to ensure that the transactions are executed properly and immediately recorded as required in the information systems. In such cases, the NBCM shall define and implement special controls, to prevent malfunctions deriving from the execution of transactions other than through the information systems.

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- 2) An NBCM shall implement work processes and operate efficient control mechanisms and supervision mechanisms, in order to ensure the proper operation of the IT management processes used by it in its activity, and their adaptation to its goals and the duties applicable to it, as provided in the Regulations.
- 3) An NBCM shall anchor in work procedures all IT management processes, including work processes, control process, supervision processes and any process detailed in its IT policy and work plan, as provided in the Regulations.

f. **Information security**

1) **Information security policy**

- a) An NBCM shall have an information security policy, which shall constitute part of its IT policy.

The information security policy shall cover all the information security aspects, and *inter alia* the aspects detailed in the Regulations.

- b) The information security policy shall be updated by the NBCM at the intervals and in the manner prescribed in the Regulations.

2) **Information security work plan**

In its work plan, the NBCM shall have an information security work plan, that shall include all the information security acts it intends to perform in the period to which the work plan relates, and a timetable for their performance.

- 3) An NBCM shall adopt means to protect the information systems, in accordance with the information security policy, and **inter alia** the means detailed in the Regulations.

4) **Information security manager**

- a) An NBCM shall appoint an information security manager with suitable experience and qualifications, who shall be responsible for all the information security aspects at the NBCM, and shall provide the information security manager with the means required to perform this position.
- b) The information security manager shall be subordinate to the NBCM's CEO or to the IT manager.
- c) The IT manager shall not be the information security manager.
- d) The information security manager shall not hold another position that might place him in a conflict of interest with this position as information security manager.

- e) The information security manager shall be responsible for the NBCM's information security activity, and inter alia the acts detailed in the Regulations.

g. **Updating the information systems and making changes in the information systems**

- 1) An NBCM shall routinely evaluate the developments in the IT sphere and update the information systems, insofar as required, in order to ensure the IT's ability to effectively support its activity.

The NBCM shall adapt the information systems to changes in its operating environment, its goals, technological developments and its obligations pursuant to the Rules and any law.

- 2) In cases in which the NBCM makes changes in its information systems, it shall adopt means to ensure the aforesaid changes' adaptation to its requirements, to the duties applicable to it pursuant to the Rules and pursuant to any law, and inter alia shall adopt means aimed at ensuring that the changes do not affect its proper operation.

Any changes the NBCM shall make in its information systems shall be made inter alia in the manner provided in the Regulations.

h. **Outsourcing services**

- 1) An NBCM may receive IT management outsourcing services, which shall enable it to perform its obligations, including its obligations to its clients, to the Stock Exchange, to the Stock Exchange Clearing House, to the Maof Clearing House and to other Stock Exchange members, and its obligations pursuant to the provisions of the Rules and/or any law.

The receipt of outsourcing services is conditional upon the outsourcing services fulfilling the conditions prescribed in the Rules.

- 2) The outsourcing services' receipt by the NBCM does not derogate from its duty to comply with all the provisions of the Rules and/or any law, and does not derogate from its liability for the outsourcing services provided to it fulfilling the conditions prescribed in the Rules.
- 3) The contract with an external supplier for the purpose of receiving outsourcing services shall be discussed and approved by the NBCM's board of directors at the intervals and in the manner prescribed in the Regulations.

i. **Readiness to maintain business continuity in a case of malfunction**

- 1) An NBCM shall have backup and recovery mechanisms enabling it to maintain business continuity in a case of malfunction (hereinafter referred to as "**business continuity**").

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The backup and recovery mechanisms shall include, inter alia, means enabling it to maintain business continuity, as provided in the Regulations.

- 2) An NBCM shall have a readiness plan to maintain business continuity (hereinafter referred to as "**the business continuity plan**"), as provided in the Regulations.
- 3) An business continuity plan shall be discussed and approved by the NBCM's board of directors at the intervals and in the manner prescribed in the Regulations.

j. **IT management exposure document and risk survey**

- 1) An NBCM shall carry out an IT management risk survey. The survey shall be carried out for the NBCM by an independent external entity with proven experience and qualifications.

Notwithstanding the aforesaid, an NBCM may, during the first year of its activity as a member, carry out the aforesaid risk survey other than through an external entity.

The IT management risk survey shall identify, evaluate and quantify the risks inherent in the NBCM's IT management activity, and shall evaluate the way in which it is managing and controlling the IT management risks (hereinafter referred to as "**the IT management risk survey**").

The carrying out of the risk survey shall include, inter alia, the acts detailed in the Regulations.

The IT management risk survey shall be carried out at the intervals and in the manner prescribed in the Regulations.

- 2) Based on the IT management risk survey carried out by the external entity, in accordance with sub-paragraph 1) above, the NBCM shall prepare a document, which shall be routinely updated, identifying, evaluating and quantifying the risks inherent in its IT management activity, and evaluating the way in which it is managing and controlling the IT management risks (herein referred to as "**the IT management exposure document**").

The IT management exposure document shall be updated by the NBCM at the intervals and in the manner prescribed in the Regulations.

- 3) The IT management risk survey and the IT management exposure document shall be discussed and approved by the NBCM's board of directors, at the intervals and in the manner prescribed in the Regulations.

k. **Reports to the Stock Exchange**

Without derogating from any other provision concerning reports that the NBCM is liable to make to the Stock Exchange, the NBCM shall report to the Stock Exchange on changes in the information systems, and on IT management incidents, as detailed in the Regulations.

l. **Documentation**

- 1) The NBCM shall keep detailed documentation of the information systems. The documentation shall detail the IT assets supporting the vital business processes, and the interfaces between them, and shall include details of the business processes that are supported by each of the IT assets.

The documentation shall be routinely updated and shall be available to the NBCM's managers, operating entities, control entities and supervision entities.

- 2) All the documents serving the NBCM in the IT management processes shall be kept at its offices.

**240. Non-applicability of the provisions of this Chapter to a foreign NBCM**

- a. TASE's CEO or someone authorised by him may exempt a foreign NBCM from compliance with the provisions of this Chapter, provided that the conditions stipulated in the Regulations are fulfilled.

A foreign NBCM seeking an exemption as aforesaid shall submit an application as provided in the Regulations.

- b. Where an application is filed as aforesaid, and in the opinion of TASE's CEO it should not be approved even though all the conditions stipulated in the Regulations are fulfilled, in light of the characteristics and scope of the NBCM's activity or in light of the way in which the information technology management subject is regulated in the international investment house which controls the foreign NBCM, the Board of Directors shall discuss and decide on the application.

The Board of Directors may decide not to approve the foreign NBCM's application even though all the conditions stipulated in the Regulations are fulfilled as aforesaid, if in the Board of Directors' discretion the foreign NBCM should not be exempt from compliance with the provisions of this Chapter, in light of the characteristics and scope of the foreign NBCM's activity or in light of the way in which the subject is regulated in the international investment house which controls the foreign NBCM.

- c. TASE's CEO may cancel the approval as aforesaid, insofar as the foreign NBCM does not fulfil the conditions stipulated in the Regulations.



- d. Where an application of a foreign NBCM pursuant to this Chapter is approved, and in the opinion of TASE's CEO the approval should be cancelled, even though all the conditions stipulated in the Regulations are being fulfilled as aforesaid, the Board of Directors shall discuss the approval's cancellation.

The Board of Directors may cancel the approval even if all the conditions stipulated in the Regulations are being fulfilled, if in the Board of Directors' discretion the foreign NBCM should not be exempt from compliance with the provisions of this chapter, in light of the characteristics and scope of the foreign NBCM's activity or in light of the way in which the matter is regulated in the international investment house which controls the foreign NBCM.

- e. If the approval is cancelled in accordance with sub-paragraph c. or d. above, the foreign NBCM shall be given written notice of the approval's cancellation, with sufficient time for the foreign NBCM to make the necessary adjustments, for the purpose of compliance with the requirements of the Rules and the Regulations pursuant thereto on the subject of information technology management in the NBCM.

**Chapter V -**  
**Stock Exchange Members' Conduct with their Clients**

25. a. A member shall act loyally for the benefit of its client, having regard to the client's benefit and relying solely upon professional considerations.
- b. A member shall exercise the same care and standard of skill in its business as a reasonable member would exercise in similar circumstances and take all reasonable steps to secure its clients' interests.
- c. A member shall act for the benefit of its clients faithfully and diligently, shall not prefer its personal interests or the interests of another over the benefit of its clients and shall not prefer the interest of one client over another client.
- d. 1) A member shall not place itself in a position where there is or might be a conflict of interest between its client and itself or between its client and a corporation which it controls or in which it is an interested party.
- 2) Should there be a conflict of interest or should the member be aware that there might be a conflict of interest as provided in sub-paragraph 1), it shall give notice thereof to the client.
- 3) Should there be a conflict of interest; the member shall refrain from performing any act involving a conflict of interest, unless the client has separately agreed in advance to any act.

The client's consent, as aforesaid, shall be given in writing, or by a telephone call, which will be recorded and documented at the member's offices.

- 4) Notwithstanding the aforesaid:
- a) a member may execute transactions between its own account and its client which is an institutional investor, as defined in the Securities Regulations (Offer of Securities to the Public), 5767-2007 (hereinafter referred to as "**institutional investor**"), which is a corporation incorporated in Israel, if it has received a general, prior and written consent from the institutional investor, in the calendar year in which the transaction was executed, to execute transactions as aforesaid;
- b) in the case of a client which is an institutional investor, and which is a corporation incorporated outside Israel - a member may be in a situation in which there is, or might be, a conflict of interest between its client as aforesaid and itself or a corporation which it controls or in which it is an interested party, and performs and act amounting to a conflict of interest with the client, including the execution of transactions between its own account and the client as aforesaid, if it has reported to the client, in advance and in writing, on the conflict of interest, or potential conflict of interest, between itself or the corporation which it controls or in which it is

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an interested party, and the client, and it has received the client's general prior and written consent to do so.

- e. A member shall not prefer one client over another client.
- f. A member shall keep a separate account for each client.

## 26. Custody of monetary assets of an NBCM client

An NBCM may provide custody services for monetary assets of its clients, as a custodian and/or as a custodian broker.

An NBCM which provides custody services shall act carefully, faithfully and diligently, and shall adopt all reasonable measures to ensure maintenance of the ownership rights in the monetary assets and monies of its clients, as well as maintenance of rights deriving from the clients' ownership of the monetary assets and monies, including rights to receive dividends, interest payments and other rights.

Rules can be included in the Regulations with regard to the provision of custody services as aforesaid.

For the purposes of this paragraph: "**monetary assets**" - including securities that are not traded and derivatives that are not traded, except for monies, unless otherwise stated.

26A. Where a member manages securities portfolios of clients through other members, the following conditions shall be fulfilled:

- 1) The member managing the securities portfolios shall notify the Stock Exchange in writing of the identity of the Stock Exchange members with which it is working;
- 2) The member managing the securities portfolios shall have documentation and reports monitoring the orders and transactions executed in the client's account that is managed through another member, enabling the deposits and transactions in the account to be monitored;
- 3) The member managing the securities portfolios shall ensure that the contract documents of the other member with the client note the fact that the account is managed by it.

## 27. a. Transactions or operations in Israel

A member shall debit and credit its client's account in connection with the transactions or operations executed for him in Israel as follows:

- 1) with securities, including derivatives, and open mutual funds within the meaning thereof in the Joint Investment Trust Law, 5754-1994 (hereinafter referred to as "**the open mutual funds**") - by no later than the date of clearing the inventory at the Stock Exchange Clearing House, or at the Maof Clearing House, as the case may be.

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- 2) with monetary proceeds - by no later than the date of executing the monetary clearance by the Stock Exchange Clearing House or by the Maof Clearing House, as the case may be;

b. **Transactions or operations overseas**

An NBCM shall credit and debit its client's account in connection with the transactions or operations executed for him overseas - by no later than one trading day on the stock exchange in Israel, after the debit or the credit by the overseas broker.

- c. Registration in a client account of operation in securities, including derivatives, and open mutual funds, will be executed on the day they are executed. However, registration of operation aforesaid executed overseas will be made no later than the opening of trading on the Stock Exchange on the next trading day after the day of the execution.

If as a result of a factor outside the control of the member cannot be made a registration aforesaid, the registration shall be made according to the conditions prescribed in the Regulations, by no later than before the opening of trading on the Stock Exchange on the next trading day.

28. A member shall not execute transactions in securities for its clients on the basis of profit sharing.

29. a. Cancelled.

- b. A member shall make a written contract with its clients (hereinafter referred to as "**the contract**") and deliver a copy of it to them before commencing the provision of service.

After any alteration to the contract, the member shall send its clients a copy of the amended contract, before the alteration takes effect.

- c. The contract with the clients shall inter alia include the following:

- 1) the clients' identification details and data;
- 2) the rate of commissions, management fees, reimbursement of expenses and other monetary charges for which the clients will be liable and the method of computing them;
- 3) provision that the clients may at any time terminate the contract with the member;
- 4) provision regarding the ability or inability to give telephone orders;
- 5) the possibility of giving credit to the clients and the terms thereof or the exclusion of such possibility;

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- 6) provisions regarding the holding by a member for a client of monetary assets, including securities that are not traded and derivatives that are not trade, except for monies;
- 6a) provisions regarding the manner of handling monies;
- 7) details regarding the types of services that the various clients will receive from the Stock Exchange member, such as: the execution of buy and sell orders given to the member by the clients, counseling services and management of the portfolio, at the discretion of the Stock Exchange member, as the case may be, and details regarding the various types of monetary instruments in respect of which the client wishes to receive services from the member;
- 8) a statement that subject to the duty of disclosure imposed by these Rules and the law, a Stock Exchange member must keep confidential all information which the clients bring to their knowledge and that the clients acknowledge that the Stock Exchange member must give the Stock Exchange, on demand, information with regard to activity in their account;
- 9) a power of attorney in fact to a portfolio manager, who is not an employee of the member, to act in the clients' account, if a portfolio manager has been appointed. The heading to the power of attorney in fact shall state that the portfolio manager is not an employee of the member, noting the member's name.

A power of attorney in fact as aforesaid shall be signed in the manner provided in the Regulations;

- 10) a power of attorney in fact to an attorney in fact who is not an employee of the member and who is not a licensed portfolio manager, to act in the clients' account, if an attorney in fact has been appointed. The heading to the power of attorney in fact shall state that the attorney in fact is not a licensed portfolio manager and is not an employee of the member, noting the member's name.

A power of attorney in fact as aforesaid shall be signed in the manner provided in the Regulations.

Transitional provision with regard to paragraphs 29.c.9) and 10) and the Regulations by virtue of which:

In respect of the member's clients whose portfolios are managed, on the date paragraphs 29.c.9) and 10) above take effect, through a power of attorney in fact to a portfolio manager or to an attorney in fact, who are not employees of the member, the member shall send, within six months of the date of approving the addition of the paragraphs as aforesaid, notice making it clear to these clients that the portfolio manager or the attorney in fact, as the case may be, who is authorised to act in their account, is not an employee of the Stock Exchange member and whether the portfolio manager appears in the list of consultants, marketers and managers on the Internet site

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of the Israel Securities Authority and whether defined in this list as a portfolio manager, or not.

Notice as aforesaid shall be sent by registered mail, or by special delivery, and confirmation of the notice's delivery shall be kept together with the clients' account opening documents.

30. Where a client's order or agreement is required, it shall be given by the client in writing and may be given by facsimile or e-mail, although an order or agreement may be given by telephone or otherwise, if permitted in the contract, provided that the member makes a record at the time of receiving the order.
31. A transaction in a client's securities account shall be carried out as follows:
  - a. on the client's order, subject to the contract with the client;
  - b. should the client's order not be given despite being requested:
    - 1) in accordance with the provisions of the Rules or the Regulations pursuant thereto.
    - 2) should there be no provisions in the Rules or Regulations, the member shall exercise its discretion for the client's benefit.
32. A member shall use its best efforts to execute orders given to it by its client, although the member shall give its client notice that there is a possibility that it will be unable to execute them.
33.
  - a. An NBCM shall send written notice to the client of every transaction executed on the client's behalf; the timing of the notice and the particulars to be incorporated therein shall be prescribed in the Regulations.
  - b. An NBCM shall give the client a report of the securities held in the client's account and of the balance in the client's account at the times prescribed in the Regulations.
  - c. Notwithstanding as provided in sub-paragraphs a. and b., the notices and reports in an account managed on blind trust shall be given in accordance with the provisions of the blind trust; for the purpose hereof, "**blind trust**" - the management of a securities portfolio by an NBCM on behalf of a client who may not give the NBCM directions or orders with regard to the securities to be purchased, sold or held on the client's behalf.
  - d. Should a Stock Exchange member grant credit to a client, it shall give the client a report of the client's debit balances in the manner and at the time prescribed in the Regulations.
34. The Stock Exchange may from time to time determine, in respect of securities listed for trade on the Stock Exchange, which have unique characteristics, that the member shall present these characteristics to its clients.

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If the Stock Exchange determines that a member must present information as aforesaid, it shall be presented by the member in the same manner and through the same means that it uses to present information about the securities' characteristics to its clients.

34A. Notices pursuant to paragraph 33 shall be sent in the manner and on the terms and conditions prescribed in the Regulations.

Cases in which an NBCM is exempt from sending notices according to paragraph 33 can be determined in the Regulations.

**34B. Disconnected accounts and deceased client accounts**

a. **"Disconnected accounts"** - each on of the following:

- 1) an account of an independent client of an NBCM, within the meaning thereof in the Regulations, in respect of which no order has been received from the client for the period stipulated in the Regulations, and the NBCM has been unable to contact the client, as provided in the Regulations;
- 2) an account of a client that is managed by an NBCM, within the meaning thereof in the Regulations, where the NBCM has been unable to contact the client, for the purpose of updating the client's requirements and instructions, as provided in the Regulations;
- 3) an account of an independent client, or an account of a client that is managed by an NBCM, within the meaning thereof in the Regulations, where a piece of mail or a report sent by the NBCM to the client as aforesaid has been returned, and the NBCM has been unable to contact the client, as provided in the Regulations.

b. An NBCM shall act as follows in connection with disconnected accounts:

- 1) shall classify accounts of clients as disconnected accounts and note them as such in its information systems, at the times and in fulfilment of the conditions stipulated in the Regulations;
- 2) shall take steps to contact clients whose accounts have been classified as disconnected accounts, at the times and in the manner stipulated in the Regulations;
- 3) shall act with disconnected accounts in the manner stipulated in the Regulations;
- 4) shall audit the disconnected accounts, at the intervals and in the manner provided in the Regulations;
- 5) shall document the handling of the disconnected accounts, as provided in the Regulations;

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- c. An NBCM shall note deceased client accounts in its information systems, audit the accounts as aforesaid and document the handling of the accounts as aforesaid, in the manner and at the times stipulated in the Regulations.
  - d. An NBCM shall appoint a person responsible for handling disconnected accounts and deceased client accounts, who shall act in the manner stipulated in the Regulations.
  - e. The NBCM's board of directors shall discuss the actions taken by the NBCM in respect of disconnected accounts and deceased client accounts, at the intervals and in the manner provided in the Regulations.
35. a. A member shall make the acceptance of orders from a portfolio manager who is not the member's employee (hereinafter in this paragraph referred to as "**portfolio manager**") conditional upon a written agreement being made between it and the portfolio manager and between the portfolio manager and its clients, all in accordance with the provisions of this paragraph.
- b. The agreement between the member and the portfolio manager shall incorporate the portfolio manager's following obligations:
- 1) to notify the member of transactions which it has executed for its clients to the effect that the member can credit and debit each client's account in connection with these transactions by the end of the day on which the transaction is executed;
  - 2) to act in the clients' account in accordance with the terms and conditions of the power of attorney it has receive from the clients, and not to deviate from these terms and conditions.
- c. The member shall allow the portfolio manager or the attorney to operate only from offices that are not used by the member for its activity as a Stock Exchange member, and which do not form part of the Stock Exchange member's offices, which shall bear a sign emphasising that the portfolio managers or attorneys operating from the said offices are not the member's employees.
- d. Twice a year, in January and July, the member shall check whether the portfolio managers with which it has signed an agreement in accordance with sub-paragraph a. appear in the list of consultants, marketers and managers on the Internet site of the Israel Securities Authority and whether they are defined in this list as licensed portfolio managers, or not.
- If one of the portfolio managers as aforesaid is not included in such list as a portfolio manager, the member shall send a written update thereof to its clients for whom the aforesaid portfolio manager has power of attorney to act in their account.

36. Cancelled.



37. A member shall enquire into written complaints from its clients in connection with its activities pursuant to this chapter, keep the documents relating to its handling of those complaints at its offices and make them available for inspection by whom ever the Board of Directors empowers.
38. The provisions of this chapter shall apply to a Stock Exchange member in addition to the provisions applicable to it pursuant to the Counseling Law.

**Chapter VI –**  
**Supervision and Control of the Stock Exchange Members'**  
**Performance of the Stock Exchange Rules and Regulations**

39. In this chapter:

**"member"** - excludes State agencies.

**"information"** - documents and data, including client names, relating to securities business, which are directly or indirectly in the member's possession or under its control or capable of being produced by it.

40. The supervision and control of members shall relate to performance of Stock Exchange Rules and Regulations and to any other matter ordered by the CEO of the Stock Exchange with the approval of the Chair of the Board of Directors. The supervision and control as aforesaid shall only apply to a Stock Exchange member, supervised companies, and subsidiaries of an NBCM, which engage in activity in securities and monetary assets for themselves, insofar as this activity is involved.
41. A member shall, within a reasonable period of time, provide the Stock Exchange with all information required for supervision and control.
42. A member shall give foundation for the information that it is required to furnish to the Stock Exchange to the latter's satisfaction.
43. A member may, in exceptional cases, request that a requirement to give information to the Stock Exchange be confirmed in writing by the Chair of the Board of Directors or by the CEO of the Stock Exchange.
44. In the contract with its client, a member shall draw its client's attention to the provisions of this chapter, including the member's duty to give information to the Stock Exchange in accordance with this chapter.
45. A member shall permit an employee of the Stock Exchange to enter its offices insofar as necessary for supervision and control.
46. With the approval of the Chair of the Board of Directors or the CEO of the Stock Exchange, the Stock Exchange may appoint an expert, who is not one of its employees, to perform its functions pursuant to this chapter. For the purpose of this paragraph, **"expert"** - a certified public accountant, economist, advocate or any other expert, as the case may be, who is not a director of the Stock Exchange, a Stock Exchange member, a member's interested party, an employee of a member, an interested party in a corporation under the control of a member, an employee of a member's controlling shareholder or a regular, remunerated service provider to any of the foregoing.

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47. Information required of a member by the Stock Exchange under this chapter shall be given at the offices of the member or at the offices of the Stock Exchange, at the option of the member. Should documents be required, it shall give the Stock Exchange a photocopy certified by the party delivering the document and the original shall be retained by the member.
48. The Stock Exchange, an expert appointed pursuant to paragraph 46, a complainant and a disciplinary committee to whom information is given pursuant to paragraph 49.c. shall not divulge information given to them by a member under this chapter.
49. The Stock Exchange shall deliver information solely in the following cases:
  - a. on the lawful demand of a competent authority;
  - b. without derogating from sub-paragraph a., to the Israel Securities Authority – on the initiative of the Stock Exchange, in the event of a suspected prima facie contravention pursuant to the Securities Law, the Counseling Law or the Money Laundering Prohibition Law, 5760-2000;
  - c. to the complainant or disciplinary committee in disciplinary proceedings.

**Chapter VII –**  
**Disciplinary Offences and Disciplinary Jurisdiction**

50. A member is subject to discipline in accordance with these Rules.
51. A disciplinary offence is an act or omission by a member, its senior manager or the employee of a member, as set out below:
- a. a contravention of a provision of these Rules or the Regulations pursuant hereto or a contravention of a resolution of the Stock Exchange Board of Directors;
  - b. conduct unbecoming a Stock Exchange member.
52. Should a disciplinary offence be committed by a member, then its directors, CEO and controlling shareholder shall also be liable for the offence, unless they prove that the offence was committed without their knowledge or that they took all reasonable steps to prevent the offence.
53. For the purpose of paragraphs 51 and 52, in the case of a member which is a banking corporation, only the CEO and the managers responsible for the unit or departments connected with the securities market shall be deemed a senior manager.
54. Whenever it becomes necessary to hear a disciplinary offence under this chapter, the Chair of the Board of Directors shall appoint, from the members of the Board of Directors and from members and their employees, a panel of three persons or a greater uneven number, at least one of whom is an external director of the Stock Exchange and one of whom has a legal education, to hear the offence (hereinafter referred to as "**the panel**") and the person shall determine which of the panel's members shall chair the panel.
55. A person may file a complaint if he or she believes that a disciplinary offence has been committed according to paragraph 51.
56. a. The Board of Directors shall appoint a person with a legal education as complainant, generally or for a particular case.
- b. The complainant shall deal with the complaint that has been filed; in order to enquire into the complaint. The complainant shall be empowered to require of the member or the Stock Exchange any information which in the complainant's opinion is needed in order to enquire into the complaint, and the member and the Stock Exchange shall deliver such information to the complainant upon request.
- c. Should a complaint be filed and it appear to the complainant that it does not prima facie disclose a disciplinary offence, the complainant may shelve the complaint and give reasoned written notice thereof to the person who filed the complainant.

- d. Should the complainant believe that the complaint prima facie discloses a disciplinary offence, the complainant shall approach the party against whom the complainant was filed (hereinafter referred to as "**the respondent**") and seek its reply to the complainant. Should the respondent reply and having regard to the reply the complaint does not in the complainant's opinion disclose a prima facie disciplinary offence or is frivolous or vexatious, the complainant shall shelve the complaint and give reasoned written notice thereof to the person who filed the complaint.
  - e. Should the complainant not shelve the complaint under sub-paragraphs c. or d., the complainant shall prepare a written charge in accordance therewith, detailing the material facts and the disciplinary offence ascribed to the respondent and make an application to the Chair of the Board of Directors to appoint a panel, to which the charge shall be submitted.
57. The person who filed the complaint, as provided in paragraph 56, may appeal in writing to the Chair of the Board of Directors within 30 days of being informed of the decision to shelve the complaint. Should the Chair of the Board of Directors decide to allow the appeal, the complainant shall act as provided in paragraph 56.e.
58. A copy of the charge shall be delivered to the respondent, who shall be summoned by the panel for the hearing of the charge at a time not earlier than 10 days from the date the respondent receives the copy charge.
59. a. At the hearing before the panel, the complainant shall appear and the respondent shall appear in person or together with the respondent's attorney, and if it is a corporation – by its employee so empowered by it, who may appear together with the corporation's attorney. Nevertheless, the Chair of the panel may, in the Chair's discretion, permit the respondent's attorney to appear at the hearing before the panel without the respondent's principal. The panel may hold a hearing and make a decision, for reasons to be recorded, even in the absence of the complainant or the respondent, provided that it is established to the panel that the absent party was duly summoned.
- b. At the hearing before the panel, the complainant may appoint a person for assist once in this work.
60. A member, a member's director or its employee must accede to the panel's summons to appear before it, testify before it and furnish such evidence as required by it.
61. On matters of procedure and evidence, the panel shall act in such manner as appears best to it in order to reach a speedy and equitable decision.
62. The Chair of the panel shall arrange for minutes to be taken containing a summary of the panel's hearings and decisions; the minutes shall be signed by the Chair of the panel after awarding any decision and at the end of every hearing.

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63. Should a panel member be unable to participate or continue participating in the hearing of a particular charge, the Chair of the Board of Directors shall appoint another member in that panel member's stead and the panel may continue the hearing, despite the replacement of the panel member.
64. The panel's decisions shall be made a majority of its members' votes; should there not be a majority of the panel members' votes in favor of a decision in respect of a particular disciplinary measure, the panel's decision shall be deemed that which in the panel Chair's opinion is most lenient to the respondent.
65. The following are the disciplinary measures, in the order of gravity, which the panel may order against whoever is found liable of a disciplinary offence:
- a. a warning;
  - b. a reprimand;
  - c. a monetary sanction of not more than NIS 1,000,000;
  - d. a monetary sanction of up to four times the benefit, linked to the consumer price index, derived from the commission of the disciplinary offence;
  - e. prohibiting or restricting the continued engagement of an employee or senior manager in securities business with a member for a specific period or permanently;
  - f. prohibiting the member engaging in various transactions or certain types of transaction in securities on or off the Stock Exchange, for a period of not more than six months;
  - g. suspending the member for a period of not more than six months;
  - h. revoking the membership of a member.
66. Disciplinary measures may be imposed by a combination of several of the disciplinary measures that the panel is empowered to impose or they may be imposed subject to such conditions as the panel prescribes.
67. A disciplinary measure imposed by the panel shall be implemented immediately the time for appeal expires and if an appeal is filed, then immediately after the decision on appeal is awarded. Nevertheless, the penalty of revoking membership shall only take effect in accordance with a resolution of the Board of Directors as provided in paragraph 76 and on the conditions prescribed in the resolution.
68. The panel may require the respondent to apologise, in such manner and way as it prescribes, in addition to or instead of any disciplinary measure which it may impose.

69. The panel may, at any stage of disciplinary proceedings against a member, decide upon the temporary suspension of the member or upon prohibiting the member from engaging in such types of transaction as prescribed by it until the proceedings have been concluded in respect of it, provided that the suspension or prohibition shall not exceed three months. Should the respondent be the employee of a member, the panel may prohibit the respondent from participating in trade until the conclusion of the disciplinary proceedings against the respondent.
70. The complainant and the respondent may appeal to the Board of Directors against the panel's decisions within 30 days of the decision being delivered to them.
71. On hearing an appeal, the Board of Directors shall allow the complainant and the respondent to state their case to it, although it shall not hear evidence except for special reasons that shall be recorded; the Chair of the Board of Directors may, in the Chair's discretion, allow the respondent to appear before the Board of Directors accompanied by the respondent's advocate.
72. a. The Board of Directors may confirm the panel's decision.
- b. The Board of Directors may, by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the meeting of the Board of Directors, revoke a decision of the panel, modify it, award a decision which the panel could have awarded and also return the hearing to the panel with directions or revoke or modify disciplinary measures decided upon by the panel, including the duty to apologise under paragraph 68.
73. The panel's hearings shall be held in camera, although the panel may allow the presence of a particular person at all or part of the hearing; the results of the hearing, including the name of the respondent, shall be published, although, subject as provided in paragraph 82, the panel may decide not to publish the respondent's name if in its opinion there are special circumstances so justifying, which circumstances shall be detailed in the panel's decision.
74. a. The limitation period for a disciplinary offence is 24 months from the date the Stock Exchange became aware of the material facts constituting the disciplinary offence.
- b. The period mentioned in sub-paragraph a. above shall not include any period of time during which, in respect of the case the facts of which constitute the disciplinary offence, criminal proceedings or civil proceedings are conducted or an investigation by any of the State's authorities is conducted, provided that insofar as civil proceedings are concerned, the limitation period shall come to an end no later than one year from the date an absolute judgment is awarded in the civil proceedings.

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- c. Should criminal proceedings or civil proceedings or disciplinary proceedings pursuant to Chapter Seven of the Counseling Law be instigated or be in existence, or an investigation by any of the State's authorities is conducted in respect of the same case whose facts constitute the disciplinary offence, the Stock Exchange may refrain from, terminate or suspend proceedings under this chapter or may take, instigate or continue disciplinary proceedings under this chapter by reason of the same case whose facts prima facie constitute the disciplinary offence.
- 74A. a. The disciplinary offences specified in sub-paragraph b. below are disciplinary offences for which a monetary sanction has been prescribed (hereinafter referred to as "**monetary sanctionable offence**").
- b. Whoever does one of the following commits a monetary sanctionable offence:
- 1) does not perform the duty to file financial statements, certificates or other reports pursuant to paragraph 20.a. of the Rules;
  - 2) does not perform the duty to file notice of an appointment or retirement under any of the following paragraphs of the Rules:
    - a) paragraph 3.a.;
    - b) paragraph 4.a. insofar as relates to paragraph 3.a.;
    - c) paragraph 4A.a.;
    - d) paragraph 5.f.;
    - e) paragraph 5.r.;
    - f) paragraph 6.a. insofar as relates to paragraph 5.f.;
    - g) paragraph 6A.a.10);
    - h) paragraph 6B.a.9);
    - i) paragraph 6B.a.10).
  - 3) does not perform an undertaking given pursuant to any of the following paragraphs of the Rules:
    - a) paragraph 6.g.;
    - b) paragraph 6.j.;
    - c) paragraph 6.k.;
    - d) paragraph 6A.a.12);
    - e) paragraph 6A.a.13).



- 4) does not perform an undertaking given on filing notice of a change under any of the following paragraphs of the Rules:
    - a) paragraph 4.b.;
    - b) paragraph 6.c.;
    - c) paragraph 6A.a.2) insofar as relates to paragraph 6.c.;
  - 5) Cancelled.
  - 6) does not perform a provision prescribed under any of the following paragraphs of the Rules:
    - a) paragraph 5.b.;
    - b) paragraph 6.d.;
    - c) paragraph 6A.a.2) insofar relates to paragraphs 5.b. or 6.d..
  - 7) does not perform a provision prescribed under any of the following paragraphs of the Rules:
    - a) paragraph 5.c.;
    - b) paragraph 6.a. insofar as relates to paragraph 5.c.;
    - c) paragraph 6.e.;
    - d) paragraph 6.h.
    - e) paragraph 6A.a.4);
  - 8) does not perform the provision under paragraph 5.g. or 6A.a.6);
  - 9) does not perform the provision under paragraph 5.h.;
  - 10) does not perform the provision under paragraph 12.b.;
  - 11) does not perform the provision under paragraph 15.;
  - 12) does not perform the provision under paragraph 24J.f.;
  - 13) does not perform the provision under paragraph 27.c.;
  - 14) does not perform the provision under paragraph 29.c.;
  - 15) does not perform the provision under paragraph 85.a.1).
- c. Whoever commits a monetary sanctionable offence shall be liable to the monetary sanction prescribed in the Regulations in respect thereof.

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Notwithstanding the aforesaid, TASE's CEO may exempt a member from financial sanctions or reduce the financial sanctions imposed on the member, if in his opinion there are exceptional circumstances justifying this.

- d. The amount of the monetary sanction for all monetary sanctionable offences shall be fixed by the Board of Directors in the Regulations. Nevertheless, the monetary sanction shall not exceed one third of the monetary sanction that the panel may impose as a disciplinary measure against whoever is found liable of a disciplinary offence under paragraph 65.c. of the Rules.
- e.
  - 1) On a continuing contravention, the monetary sanction prescribed in the Regulations for the particular monetary sanctionable offence shall be subject to the addition of a monetary sanction of 1/50th thereof for every day the contravention continues.
  - 2) On a repeated contravention, a sum which is a half of the amount of the monetary sanction that had to be imposed for the same first contravention will be added to the monetary sanction that is defined in the Regulations for the same contravention.

For the purpose hereof, "**repeated contravention**" - the contravention of any of the provisions of sub-paragraph b. above or pursuant thereto within two years of a contravention of any of the provisions of that paragraph or pursuant thereto and on a continuing offence – within two years of the last day on which it continued.

- f. Should the CEO of the Stock Exchange have reason to believe that a member has committed a monetary sanctionable offence, the member shall be issued with a demand for the payment of a monetary sanction (hereinafter referred to as "**monetary sanction payment notice**"). The monetary sanction payment notice shall be signed by the CEO of the Stock Exchange and be in the form prescribed in the Regulations, and shall detail the monetary sanctionable offence, the amount of the monetary sanction and the fact of the anticipated publication regarding the monetary sanction's imposition, if publication as aforesaid is anticipated, in accordance with sub-paragraph j.2) below.
- g. A member to which a monetary sanction payment notice is delivered shall, within 14 days of the date of the monetary sanction payment notice, pay the amount of the monetary sanction specified in the monetary sanction notice in the manner specified in the monetary sanction notice, unless within those 14 days the member gives notice that it wishes to refer the matter of the monetary sanction to a panel of enquiry. The member's notice as aforesaid shall be in such form as prescribed in the Regulations.
- h. Should a member give notice that it wishes to refer the matter of the monetary sanction to a panel of enquiry as provided in sub-paragraph g. above, the provisions of paragraphs 50 to 74 above shall apply.

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- i. The determination of a disciplinary offence as a monetary sanctionable offence shall not derogate from the possibility of acting in accordance with the provisions of paragraphs 50 to 74. Should a complaint be filed in accordance with paragraph 55, a monetary sanction payment notice shall not be issued and if it has been issued, it shall be cancelled. Should a monetary sanction notice have been issued together with a monetary sanction payment and should the member have paid the monetary sanction, proceedings shall not be taken under paragraphs 50 to 74 of the Rules.
- j. The Regulations shall prescribe the cases in which the fact of a monetary sanction's imposition on a member shall be published, and the cases in which it shall not be published, including conditions and exceptions in respect of such cases.

The Stock Exchange shall publish the fact of a monetary sanction's imposition in respect of monetary sanctionable offences that must be published, provided that the member has not requested, within the period of time prescribed in sub-paragraph g. above, to refer the offence in respect of which the monetary sanction was imposed to a panel of enquiry.

The publication shall include the name of the member that committed the monetary sanctionable offence, a description of the offence and the amount of the monetary sanction imposed in respect thereof.

**Chapter VIII –**  
**Conditions and Procedure for a Member's suspension**  
**and the Revocation of Membership**

75. The Board of Directors may prohibit a member, for such period as it prescribes, from engaging in certain transactions or certain types of transaction in securities, in trade on or off the Stock Exchange, in any of the following cases:
- a. should a provisional liquidator or pre-liquidator or receiver be appointed in respect of the member or should it pass a resolution for its voluntary liquidation;
  - b. should an application be filed for the member's liquidation or for the appointment of a pre-provisional liquidator or provisional liquidator or a receiver or provisional receiver or should an application be filed against the member for the commencement of rehabilitation proceedings or for a moratorium of proceedings and application not be set aside or struck out within 30 days;
  - c. should the member not perform its obligations vis-à-vis the Stock Exchange and/or vis-à-vis the Maof Clearing House (hereinafter referred to as "**the Maof Clearing House**") and/or vis-à-vis the Tel Aviv Stock Exchange Clearing House Ltd (hereinafter referred to as "**the Stock Exchange Clearing House**");
  - d. should the Board of Directors fear that the member might not perform its obligations or any of them or pay its debts, or any of them;
  - e. should the license required by the member for the management of its business or part thereof be suspended or cancelled;
  - f. should an authorised manager or special supervisor be appointed for the member or the Supervisor of Banks adopts any other measures against the member, pursuant to section 8(c) or 8(d) of the Banking Ordinance, 1941 or any other law replacing it;
  - g. should the member stop fulfilling any of the conditions mentioned in Chapters II to IV of the Rules or the Regulations pursuant thereto;
  - h. should the member's admission to the Stock Exchange have been conditional upon the maintenance of a number of directors or shareholders and that number for any reason fall and not be made up within the time prescribed in the Stock Exchange's demand;
  - i. should material flaws be discovered in the satisfactory business procedure of a member and not be remedied within the time prescribed in the Stock Exchange's demand;
  - j. should the member not act in accordance with a resolution of the Board of Directors pursuant to paragraph 81;
  - k. should the member not act in accordance with a decision of the panel pursuant to paragraphs 65 or 68;

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- l. on the occurrence of one of the events mentioned in paragraphs a), f) or i) in respect of the member's controlling shareholder and the Board of Directors be of the opinion that such might affect the member;
  - m. should an indictment be filed against the member or its controlling shareholder and in view of the indictment's gravity the Board of Directors believes that the member should be prohibited from engaging in certain transactions or certain types of transactions.
76. The Board of Directors may suspend a member from membership of the Stock Exchange for such period as it prescribes not exceeding six months in any of the following cases:
- a. should a provisional liquidator or pre-liquidator or receiver be appointed in respect of the member or should it pass a resolution for its voluntary liquidation;
  - b. should an application be filed for the member's liquidation or for the appointment of a pre-provisional liquidator or provisional liquidator or a receiver or provisional receiver or should an application be filed against the member for the commencement of rehabilitation proceedings or for a moratorium of proceedings and application not be set aside or struck out within 30 days;
  - c. should the member not perform its obligations vis-à-vis the Stock Exchange and/or vis-à-vis the Maof Clearing House and/or vis-à-vis the Stock Exchange Clearing House;
  - d. should the Board of Directors fear that the member might not perform its obligations or any of them or pay its debts, or any of them;
  - e. should the license required by the member for the management of its business or part thereof be suspended or cancelled;
  - f. should an authorised manager or special supervisor be appointed for the member, or the Supervisor of Banks adopt any other measures against the member, pursuant to section 8c or 8d of the Banking Ordinance, 1941 or any other law replacing it;
  - g. should the member stop fulfilling any of the conditions mentioned in Chapters II to IV of the Rules or the Regulations pursuant thereto;
  - h. should the member not demonstrate real continuous activity on the Stock Exchange. In determining the fulfilment of this condition, the Board of Directors shall inter alia consider the frequency of the member's participation in trade on the Stock Exchange and the volume of its transactions;

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- i. should the member's admittance to the Stock Exchange have been conditional upon the maintenance of a number of directors or shareholders and that number for any reason decline and not be made up within the time prescribed in the Stock Exchange's demand;
- j. should material flaws be discovered in the satisfactory business procedure of a member and not be remedied within the time prescribed in the Stock Exchange's demand;
- k. should the member not act in accordance with a resolution of the Board of Directors pursuant to paragraphs 75 or 81;
- l. should the member not act in accordance with a decision of the panel pursuant to paragraphs 65 or 68;
- m. on the occurrence of one of the events set out in paragraphs a), f) or j) to the member's controlling shareholder and in the Board of Directors' opinion such might affect the member;
- n. should an indictment be filed against the member or its controlling shareholder and in view of the indictment's gravity the Board of Directors believes that the member should be suspended;
- o. should the membership of a remote member of another stock exchange of which it is a member be terminated or suspended.

The Board of Directors' resolution to suspend a member from its membership of the Stock Exchange, in accordance with paragraphs g) to m) shall be passed by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the Board of Directors' meeting.

- 77. During the suspension, the member shall not act in trade otherwise than through another member with the Board of Directors' approval.
- 78. The Board of Directors may revoke a member's membership in any of the following cases:
  - a. should a liquidator or provisional liquidator or pre-provisional liquidator or receiver be appointed in respect of the member or should it pass a resolution for its voluntary liquidation or should it be wound up;
  - b. should the member not perform its obligations vis-à-vis the Stock Exchange and/or vis-à-vis the Maof Clearing House and/or vis-à-vis the Stock Exchange Clearing House;
  - c. should the Board of Directors fear that the member might not perform its obligations or any of them or pay its debts, or any of them;
  - d. should the license required by the member for the management of its business or part thereof be suspended or cancelled;

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- e. should an authorised manager or special supervisor be appointed for the member or the Supervisor of Banks adopt any other measures against the member, pursuant to section 8c or 8d of the Banking Ordinance, 1941 or any other law replacing it;
- f. should the member stop fulfilling any of the conditions mentioned in Chapters II to IV of the Rules or the Regulations pursuant thereto;
- g. should the member not demonstrate real continuous activity on the Stock Exchange. In determining the fulfilment of this condition, the Board of Directors shall inter alia consider the frequency of the member's participation in trade on the Stock Exchange and the volume of its transactions;
- h. should the member be convicted of an offence involving moral turpitude;
- i. should the member's admittance to the Stock Exchange have been conditional on the maintenance of a number of directors or shareholders and that number decline for any reason and not be made up within the time prescribed in the Stock Exchange's demand;
- j. should material flaws be discovered in the satisfactory business procedure of a member and not be remedied within the time prescribed in the Stock Exchange's demand;
- k. should the panel sentence the member to the revocation of its membership;
- l. should the member not act in accordance with a resolution of the Board of Directors pursuant to paragraphs 75, 76 or 81;
- m. should the member not act in accordance with a decision of the panel pursuant to paragraph 65;
- n. on the occurrence of one of the events set out in paragraphs a), e), h) or j) to the member's controlling shareholder and in the Board of Directors' opinion such might affect the member;
- o. should the membership of a remote member of another stock exchange of which it is a member be terminated or suspended.

The Board of Directors' resolution to revoke a member's membership in accordance with paragraphs f), g), i), j) and l) shall be passed by the votes of a majority of the members of the Board of Directors constituting at least 75% of those present at the Board of Directors' meeting.

78A. On the occurrence of one of the events mentioned in paragraphs 75.a., 75.b., 75.e., 75.f., 75.l., 75.m., 76.o. and 78.h. above, a member shall give notice thereof to the Stock Exchange in writing, immediately.

79. Should the Board of Directors resolve to revoke the membership of a member, it may do so on such conditions and in such manner as it deems fit.

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80. Should a member be suspended or its membership revoked, or if a resolution is passed to prohibit him for a certain period from engaging in certain transactions or certain types of transactions in securities, in trade on or off the Stock Exchange, it and all those acting on his behalf shall take all measures in order, so far as possible, to avoid damage to the member's clients, other members and the Stock Exchange.
81. Cancelled.
82. Should the Board of Directors resolve to revoke membership, suspend a member, prohibit a member from engaging in certain transactions or that a member shall suspend its manager or employee, the resolution and its essential reasons shall be published.
83. A resolution under paragraphs 75 to 79 and 81 shall not be passed without the member first being given a reasonable opportunity to state its case to the Board of Directors in writing and on request it may also state its case to the Board of Directors orally.

**83A. Termination of membership on the member's initiative**

- a. A member seeking to terminate his Stock Exchange membership shall give notice thereof to the Stock Exchange in writing, in accordance with the wording of appendix "A11".
  - b. The member shall act in accordance with the outline determined, for the purpose of termination of his Stock Exchange membership, by arrangement with the Stock Exchange.
  - c. The fact that the membership termination application has been submitted shall be brought to the knowledge of the Board of Directors.
  - d. The membership termination date shall be by arrangement with the Stock Exchange, after performance of his obligations to the Stock Exchange and/or to the Stock Exchange Clearing House and/or to the Maof Clearing House.
  - e. A member who has decided to terminate his membership, and all those acting on his behalf, shall adopt all the measures required in order to prevent, so far as possible, damage to the member's clients, other members, the Stock Exchange, the Stock Exchange Clearing House and the Maof Clearing House, as the case may be.
- 83B. A member shall continue to be liable for all his obligations as a member to the Stock Exchange and/or the Stock Exchange Clearing House and/or the Maof Clearing House, whether his membership was suspended or it was resolved to prohibit him for a certain period from engaging in certain transactions or certain types of transactions in securities, in trade on or off the Stock Exchange .

If his membership is revoked, or the member decides to terminate his membership, the member will continue to be liable for all his duties as a member for the period preceding the date of the membership's termination / revocation, as the case may be



## **Chapter IX – Supervised Company**

84. A supervised company shall be governed by the provisions of Chapters II to VIII as though it were an NBCM, subject to the modifications detailed below in this chapter.
85. a. An NBCM may hold capital shares in a supervised company, provided that all the following conditions are fulfilled:
- 1) the NBCM has filed an application, the details of which and the documents annexed thereto being as prescribed in the Regulations, and established to the Board of Directors' satisfaction that the supervised company fulfils the qualification conditions under paragraphs 5. or 6., as the case may be, subject to the following modifications:
    - a) the equity, initial equity and net unencumbered liquid assets of the supervised company shall be as prescribed in the Regulations on such matter with regard to a supervised company;
    - b) the supervised company's credit controller may be someone who is serving as credit controller of an NBCM, which is the parent company or affiliate of the supervised company;
    - c) the requirement that the supervised company must have a central system shall not apply, provided that the Stock Exchange members with which its clients' investment portfolios are deposited and through which the transactions in its clients' accounts are executed have a central system as required pursuant to the Rules;
    - d) the compliance officer of supervised company may be the person who serves as compliance officer of the NBCM, which is the parent company, subsidiary or affiliate of the supervised company.
  - 2) the Board of Directors has given its approval that the NBCM shall hold shares of the supervised company;
  - 3) the supervised company shall report to the Stock Exchange on compliance with the provisions of the Rules regarding collateral and credit control, as provided in the Regulations;
  - 4) the NBCM has undertaken that the supervised company will comply with the provisions governing it under Chapter IX of the Rules;
  - 5) in the case of a supervised company which is controlled by the NBCM's controlling shareholder, the NBCM's controlling shareholder shall undertake to perform the provisions applicable to it under Chapter IX of the Rules;

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- 6) the NBCM has obtained written consent from the other holders of the supervised company's capital that the company will be under the supervision of the Stock Exchange and governed by the provisions set out in this paragraph;
  - 7) the supervised company shall include in its contract with its clients a provision that the client acknowledges that the contract is subject to the supervised company's obligations to comply with the duties governing a Stock Exchange member in accordance with the Stock Exchange Rules;
  - 8) should a supervised company not comply with any of the provisions governing it under this Chapter or should the NBCM not comply with any of the obligations under this paragraph, the Board of Directors may revoke the approval granted by it to hold shares in the supervised company, provided that the NBCM is given a due opportunity to state its case in writing to the Board of Directors before the decision is made.
- b. Cancelled.